

DREYFUS STRATEGIC MUNICIPALS INC  
Form N-CSR  
May 26, 2006

**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)

Mark N. Jacobs, Esq.  
200 Park Avenue  
New York, New York 10166  
(Name and address of agent for service)

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

Date of fiscal year end: 09/30

Date of reporting period: 03/31/06

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**FORM N-CSR**

**Item 1. Reports to Stockholders.**

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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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**Dreyfus Strategic Municipals, Inc.**

# The Fund

## LETTER FROM THE CHAIRMAN

Dear Shareholder:

We are pleased to present this semiannual report for Dreyfus Strategic Municipals, Inc., covering the six-month period from October 1, 2005, through March 31, 2006.

Although short-term interest rates continued to rise steadily over the past six months, municipal bonds prices declined only slightly, primarily due to robust investor demand for a more limited supply of newly issued securities. However, longer-maturity bonds generally held more of their value than short- and intermediate-term securities. As a result, yield differences between two-year and 30-year high-grade municipal bonds narrowed to slightly more than half a percentage point as of the end of the reporting period, which was steeper than the U.S. Treasury yield curve but still considerably narrower than historical norms.

Recent economic data have been mixed and inflation appeared to remain contained at the end of the first quarter, conditions that could continue to support longer-term bond prices. In addition, our chief economist, Richard Hoey, currently expects continued economic growth, with any slack in consumer spending likely to be taken up by corporate capital investment, exports and non-residential construction. However, if yield differences among tax-exempt bonds widen and move closer to historical averages, shorter maturities may begin to fare better than longer maturities. As always, we encourage you to talk with your financial advisor to discuss investment options and portfolio allocations that may be suitable for you in this environment.

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

Thank you for your continued confidence and support.

Stephen E. Canter  
Chairman and Chief Executive Officer  
The Dreyfus Corporation  
April 17, 2006

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## DISCUSSION OF FUND PERFORMANCE

W. Michael Petty, Portfolio Manager

### **How did Dreyfus Strategic Municipals, Inc. perform relative to its benchmark?**

For the six-month period ended March 31, 2006, the fund achieved a total return of 2.11%.<sup>1</sup> During the same period, the fund provided income dividends of \$0.27 per share, which is equal to a distribution rate of 6.03%.<sup>2</sup>

Despite rising interest rates throughout the reporting period, longer-term municipal bond prices continued to hold up relatively well due to persistently low inflation and robust investor demand. Although the fund benefited from strong income from its seasoned, core holdings, the fund reduced its dividend effective February 2006 due to lower levels of investment income from newly purchased securities and higher borrowing costs associated with rising short-term interest rates on the fund's auction preferred stock.

#### **What is the fund's investment approach?**

The fund's investment objective is to maximize current income exempt from federal income tax to the extent consistent with the preservation of capital. Under normal market conditions, the fund invests at least 80% of its net assets in municipal obligations. Generally, the fund invests at least 50% of its net assets in municipal bonds considered investment-grade or the unrated equivalent as determined by Dreyfus in the case of bonds, and in the two highest-rating categories or the unrated equivalent as determined by Dreyfus in the case of short-term obligations having or deemed to have maturities of less than one year.

To this end, we have constructed the portfolio by seeking income opportunities through analysis of each bond's structure, including paying close attention to each bond's yield, maturity and early redemption features.

Over time, many of the fund's relatively higher yielding bonds mature or are redeemed by their issuers, and we generally attempt to replace

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#### DISCUSSION OF FUND PERFORMANCE *(continued)*

those bonds, as opportunities arise, with investments consistent with the fund's investment policies. When we believe an opportunity exists, we also may seek to upgrade the portfolio's investments with newly issued bonds that, in our opinion, have better structural or income characteristics than existing holdings.

#### **What other factors influenced the fund's performance?**

Short-term interest rates continued to rise while long-term municipal bond yields remained surprisingly stable during the reporting period. The Federal Reserve Board (the "Fed") implemented four more increases in the overnight federal funds rate, driving it to 4.75% by the reporting period's end. Short-term municipal bond yields rose along with the Fed's interest-rate target. In contrast, longer-term bond yields declined modestly compared to six months ago, contributing to a further narrowing of yield differences between the short and long ends of the market's maturity range.

In addition, the fund's results were influenced by supply-and-demand factors within the municipal bond market. The steadily growing U.S. economy benefited the fiscal conditions of most states and municipalities, helping to reduce unemployment and boost corporate and personal incomes. Consequently, many states enjoyed higher tax revenues, reducing their borrowing needs. However, investor demand generally remained robust, putting downward pressure on bond yields and supporting their prices.

In this environment, the fund continued to receive strong income contributions from its core holdings of seasoned bonds, which were purchased with significantly higher yields than are available today. Some of those holdings were redeemed early by their issuers during the reporting period. Because we were unable to find securities with comparable yields and prices in today's marketplace, the fund generated incrementally less income, contributing to an adjustment in the fund's dividend distribution rate.

The fund also received strong income contributions from its corporate-backed holdings, including bonds issued on behalf of airlines as well as

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securities backed by the states' settlement of litigation with U.S. tobacco companies. On the other hand, some of the fund's income-oriented holdings lost value when their issuers' credit ratings were downgraded by the

independent credit rating agencies. In addition, due to rising interest rates, the fund's returns were held back somewhat by higher costs for the auction-rate preferred notes that fund its leveraging strategy.

When making new purchases, we generally focused on income-oriented bonds with potential for pre-refunding by their issuers, a process in which new debt is issued at lower rates and part of the proceeds is set aside to redeem existing, higher yielding bonds. When bonds are pre-refunded, their prices generally rise.

**What is the fund's current strategy?**

In our view, the Fed's credit tightening campaign is likely to end after a limited number of additional rate-hikes. It appears to us that a softening housing market and higher mortgage rates may put pressure on consumer spending, which has been one of the pillars supporting the economic expansion over the past several years. However, we currently see no evidence that the Fed is about to reverse course and begin cutting short-term rates anytime soon. Therefore, we have begun to position the fund for the end of the tightening cycle, which may cause yield differences between shorter- and longer-term municipal bonds to widen from today's narrow levels.

April 17, 2006

- <sup>1</sup> 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.
- <sup>2</sup> Distribution rate per share is based upon dividends per share paid from net investment income during the period, divided by the market price per share at the end of the period.

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**STATEMENT OF INVESTMENTS**

March 31, 2006 (Unaudited)

| <b>Long-Term Municipal Investments</b>                                  | Coupon Rate (%) | Maturity Date | Principal Amount (\$) | Value (\$) |
|---|-----------------|---------------|-----------------------|------------|
| <b>Alabama 5.3%</b>   |                 |               |                       |            |
| Houston County Health Care Authority (Insured; AMBAC)                   | 6.25            | 10/1/30       | 8,000,000             | 8,691,760  |
| Jefferson County, Limited Obligation School Warrant                     | 5.25            | 1/1/18        | 16,000,000            | 16,926,880 |
| Jefferson County, Limited Obligation School Warrant                     | 5.50            | 1/1/22        | 4,000,000             | 4,299,600  |
| <b>Alaska 0.7%</b>  |                 |               |                       |            |
| Alaska Housing Finance Corp. (Insured; MBIA)                            | 6.00            | 6/1/49        | 4,000,000             | 4,147,560  |
| <b>Arizona 3.8%</b>   |                 |               |                       |            |
| Coconino County Pollution Control Corp., PCR (Nevada Power Co. Project) | 6.38            | 10/1/36       | 3,500,000             | 3,569,160  |
| Maricopa Pollution Control Corp.,                                       |                 |               |                       |            |

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|   |      |         |           |           |
|---|------|---------|-----------|-----------|
| PCR (Public Service Co.)<br>Navajo County Industrial<br>Development Authority, IDR<br>(Stone Container Corp. Project)               | 5.75 | 11/1/22 | 6,000,000 | 6,067,200 |
| Scottsdale Industrial Development<br>Authority, HR (Scottsdale<br>Healthcare)<br>Tuscon,<br>Water System Revenue (Insured;<br>FGIC) | 7.40 | 4/1/26  | 1,585,000 | 1,632,708 |
|   | 5.80 | 12/1/31 | 6,000,000 | 6,391,920 |
|   | 5.00 | 7/1/21  | 3,500,000 | 3,647,980 |
| <b>Arkansas 1.6%</b>  |      |         |           |           |
| Arkansas Development Finance<br>Authority, SFMR (Mortgage<br>Backed Securities Program)<br>(Collateralized: FNMA and GNMA)          | 6.45 | 7/1/31  | 25,000    | 26,085    |
| Arkansas Development Finance<br>Authority, SFMR (Mortgage<br>Backed Securities Program)<br>(Collateralized; GNMA)                   | 6.25 | 1/1/32  | 2,775,000 | 2,786,766 |
| Little Rock School District<br>(Insured; FSA)   | 5.25 | 2/1/30  | 6,000,000 | 6,263,340 |

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

|   | Coupon<br>Rate (%) | Maturity<br>Date | Principal<br>Amount (\$) | Value (\$) |
|---|--------------------|------------------|--------------------------|------------|
| <b>California 10.5%</b>   |                    |                  |                          |            |
| California,<br>GO   | 5.50               | 4/1/28           | 4,000,000                | 4,372,960  |
| California,<br>GO   | 5.00               | 2/1/33           | 5,000,000                | 5,121,750  |
| California,<br>GO   | 5.25               | 4/1/34           | 5,000,000                | 5,261,600  |
| California Infrastructure and<br>Economic Development Bank, Bay<br>Area Toll Bridges Seismic<br>Retrofit (First Lien)<br>(Insured; FSA) | 5.25               | 7/1/17           | 12,360,000               | 13,351,519 |
| California Pollution Control<br>Financing Authority, SWDR<br>(Keller Canyon Landfill Co.<br>Project)                                    | 6.88               | 11/1/27          | 2,000,000                | 2,017,820  |
| California Statewide Communities<br>Development Authority, Revenue<br>(Bentley School)<br>Golden State Tobacco                          | 6.75               | 7/1/32           | 2,000,000                | 2,176,120  |

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|   |      |         |           |           |
|---|------|---------|-----------|-----------|
| Securitization Corp.,<br>Tobacco Settlement<br>Asset-Backed Bonds   | 5.00 | 6/1/21  | 1,945,000 | 1,957,098 |
| Golden State Tobacco<br>Securitization Corp., Tobacco<br>Settlement Asset-Backed Bonds                                | 7.80 | 6/1/42  | 8,100,000 | 9,674,721 |
| Golden State Tobacco<br>Securitization Corp., Tobacco<br>Settlement Asset-Backed Bonds                                | 7.90 | 6/1/42  | 2,000,000 | 2,400,900 |
| Los Angeles Unified School<br>District (Insured; FSA)   | 5.25 | 7/1/20  | 7,200,000 | 7,751,232 |
| State Public Works Board of<br>California, LR Department of<br>General Services (Butterfield<br>State Office Complex) | 5.25 | 6/1/30  | 5,000,000 | 5,253,900 |
| <b>Colorado</b> 5.2%  |      |         |           |           |
| Beacon Point Metropolitan District  | 6.25 | 12/1/35 | 2,000,000 | 2,090,520 |

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STATEMENT OF INVESTMENTS (Unaudited) (continued)

| <b>Long-Term Municipal<br/>Investments (continued)</b>   | Coupon<br>Rate (%) | Maturity<br>Date | Principal<br>Amount (\$) | Value (\$) |
|--|--------------------|------------------|--------------------------|------------|
| <b>Colorado (continued)</b>  |                    |                  |                          |            |
| Colorado Housing Finance Authority<br>(Single Family Program Senior<br>and Subordinate)<br>(Collateralized; FHA) | 6.60               | 8/1/32           | 2,290,000                | 2,367,310  |
| Denver City and County,<br>Special Facilities Airport<br>Revenue (United Airlines<br>Project)                    | 6.88               | 10/1/32          | 7,135,000 <sup>a</sup>   | 7,268,781  |
| Northwest Parkway Public Highway<br>Authority, Revenue (First Tier<br>Subordinate)                               | 7.13               | 6/15/41          | 10,750,000               | 10,171,328 |
| Silver Dollar Metropolitan<br>District   | 7.05               | 12/1/06          | 4,870,000 <sup>b</sup>   | 4,976,945  |
| Southlands Metropolitan District<br>Number 1   | 7.13               | 12/1/34          | 2,000,000                | 2,210,580  |
| <b>Florida</b> 2.5%  |                    |                  |                          |            |
| Deltona,<br>Utilities System Revenue<br>(Insured; MBIA)  | 5.13               | 10/1/27          | 6,000,000                | 6,289,020  |

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|   |       |         |                          |           |
|---|-------|---------|--------------------------|-----------|
| Florida Housing Finance Corp.,<br>Housing Revenue (Nelson Park<br>Apartments) (Insured; FSA)  | 6.40  | 3/1/40  | 5,000                    | 5,251     |
| Florida Housing Finance Corp.,<br>Housing Revenue (Nelson Park<br>Apartments) (Insured; FSA)  | 12.14 | 3/1/40  | 4,125,000 <sup>c,d</sup> | 4,744,987 |
| Orange County Health Facilities<br>Authority, HR (Orlando<br>Regional Healthcare System)  | 6.00  | 10/1/26 | 2,000,000                | 2,112,940 |
| Palm Bay,<br>Educational Facilities Revenue<br>(Patriot Charter School<br>Project)  | 7.00  | 7/1/36  | 1,000,000                | 1,000,480 |
| <b>Georgia</b> 2.2%   |       |         |                          |           |
| Augusta,<br>Water and Sewer Revenue<br>(Insured; FSA)   | 5.25  | 10/1/39 | 3,000,000                | 3,182,490 |
| Brooks County Development<br>Authority, Senior Health and<br>Housing Facilities Revenue<br>(Presbyterian Home, Quitman,<br>Inc.) (Collateralized; GNMA) | 5.70  | 1/20/39 | 4,445,000                | 4,843,405 |

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

| Coupon<br>Rate (%) | Maturity<br>Date | Principal<br>Amount (\$) | Value (\$) |
|--------------------|------------------|--------------------------|------------|
|--------------------|------------------|--------------------------|------------|

**Georgia (continued)**

|   |      |        |           |           |
|---|------|--------|-----------|-----------|
| Milledgeville-Baldwin County<br>Development Authority, Revenue<br>(Georgia College and State<br>Foundation) | 6.00 | 9/1/13 | 2,090,000 | 2,271,328 |
| Milledgeville-Baldwin County<br>Development Authority, Revenue<br>(Georgia College and State<br>Foundation) | 6.00 | 9/1/33 | 2,000,000 | 2,167,060 |

**Hawaii** 0.5%

|   |       |         |           |           |
|---|-------|---------|-----------|-----------|
| Hawaii Department of<br>Transportation, Special<br>Facilities Revenue (Caterair<br>International Corp. Project) | 10.13 | 12/1/10 | 2,800,000 | 2,801,596 |
|---|-------|---------|-----------|-----------|

**Idaho** 0.9%

|                            |      |        |                        |           |
|----------------------------|------|--------|------------------------|-----------|
| Madison County,<br>HR, COP | 5.25 | 9/1/37 | 1,650,000 <sup>e</sup> | 1,671,731 |
|----------------------------|------|--------|------------------------|-----------|



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|   |      |         |                         |            |
|---|------|---------|-------------------------|------------|
| Power County Industrial Development Corp., SWDR (FMC Corp. Project)                               | 6.45 | 8/1/32  | 3,250,000               | 3,444,805  |
| <b>Illinois 14.0%</b>   |      |         |                         |            |
| Chicago (Insured; FGIC)   | 6.13 | 7/1/10  | 14,565,000 <sup>b</sup> | 16,071,895 |
| Chicago (Insured; FGIC)   | 6.13 | 7/1/10  | 1,250,000 <sup>b</sup>  | 1,379,325  |
| Chicago, SFMR (Collateralized: FHLMC, FNMA and GNMA)  | 6.55 | 4/1/33  | 4,100,000               | 4,198,236  |
| Chicago, Wastewater Transmission Revenue (Insured; MBIA)  | 6.00 | 1/1/10  | 3,000,000 <sup>b</sup>  | 3,267,120  |
| Chicago O'Hare International Airport, General Airport Third Lien Revenue (Insured; MBIA)          | 5.25 | 1/1/26  | 5,000,000               | 5,348,000  |
| Chicago O'Hare International Airport, Special Facilities Revenue (American Airlines Inc. Project) | 8.20 | 12/1/24 | 8,000,000               | 8,041,120  |
| Illinois Educational Facilities Authority, Revenue (Northwestern University)                      | 5.00 | 12/1/38 | 5,000,000               | 5,109,850  |

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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 (continued)</b>  |                 |               |                        |            |
| Illinois Educational Facilities Authority, Revenue (University of Chicago) (Insured; MBIA) | 5.13            | 7/1/08        | 5,000 <sup>b</sup>     | 5,209      |
| Illinois Educational Facilities Authority, Revenue (University of Chicago) (Insured; MBIA) | 5.13            | 7/1/38        | 6,995,000              | 7,223,247  |
| Illinois Health Facilities Authority, Revenue (Advocate Health Care Network)               | 6.13            | 11/15/10      | 4,020,000 <sup>b</sup> | 4,423,327  |
| Illinois Health Facilities Authority, Revenue (OSF Healthcare System)                      | 6.25            | 11/15/09      | 7,730,000 <sup>b</sup> | 8,452,910  |

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|   |      |         |                        |           |
|---|------|---------|------------------------|-----------|
| Illinois Health Facilities Authority, Revenue (Swedish American Hospital)   | 6.88 | 5/15/10 | 4,970,000 <sup>b</sup> | 5,534,940 |
| Lombard Public Facilities Corp., Conference Center and First Tier Hotel Revenue                                     | 7.13 | 1/1/36  | 3,500,000              | 3,724,035 |
| Metropolitan Pier and Exposition Authority, Dedicated State Tax Revenue (McCormick Place Expansion) (Insured; MBIA) | 5.25 | 6/15/42 | 5,325,000              | 5,608,290 |
| <b>Indiana</b> 2.2%   |      |         |                        |           |
| Franklin Township School Building Corp., First Mortgage   | 6.13 | 7/15/10 | 6,500,000 <sup>b</sup> | 7,219,485 |
| Indiana Housing Finance Authority, SFMR   | 5.95 | 1/1/29  | 850,000                | 867,825   |
| Petersburg, PCR (Indiana Power and Light)   | 6.38 | 11/1/29 | 4,150,000              | 4,411,948 |
| <b>Kansas</b> 4.6%  |      |         |                        |           |
| Kansas Development Finance Authority, Revenue (Board of Regents-Scientific Resource) (Insured; AMBAC)               | 5.00 | 10/1/21 | 5,290,000              | 5,592,006 |
| Kansas Development Finance Authority, Health Facility Revenue (Sisters of Charity)                                  | 6.25 | 12/1/28 | 3,000,000              | 3,262,050 |

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

|  | Coupon Rate (%) | Maturity Date | Principal Amount (\$) | Value (\$) |
|--|-----------------|---------------|-----------------------|------------|
| <b>Kansas (continued)</b>  |                 |               |                       |            |
| Sedgwick and Shawnee Counties, SFMR (Mortgage Backed Securities Project) (Collateralized: FNMA and GNMA)           | 6.30            | 12/1/32       | 5,945,000             | 6,102,721  |
| Wichita, HR (Christian Health System Inc.)   | 6.25            | 11/15/24      | 10,000,000            | 10,682,400 |
| <b>Kentucky</b> 1.0%   |                 |               |                       |            |
| Kentucky Economic Development Finance Authority, MFHR (Christian Care Communities Projects) (Collateralized; GNMA) | 5.25            | 11/20/25      | 2,370,000             | 2,522,107  |
| Kentucky Economic Development Finance Authority, MFHR (Christian Care Communities                                  |                 |               |                       |            |

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|  |      |          |           |           |
|--|------|----------|-----------|-----------|
| Projects) (Collateralized;<br>GNMA)  | 5.38 | 11/20/35 | 1,805,000 | 1,926,206 |
| Three Forks Public Properties<br>Corp., First Mortgage Revenue<br>(Regional Detention Facility<br>Project)               | 5.50 | 12/1/20  | 1,000,000 | 996,430   |
| <b>Louisiana</b> 5%  |      |          |           |           |
| Louisiana Public Facilities<br>Authority, Revenue (Pennington<br>Medical Foundation Project)                             | 5.00 | 7/1/31   | 1,500,000 | 1,516,080 |
| Saint James Parish,<br>SWDR (Freeport-McMoran<br>Partnership)  | 7.70 | 10/1/22  | 1,405,000 | 1,406,503 |
| <b>Maine</b> 5%  |      |          |           |           |
| Maine Housing Authority,<br>Mortgage Purchase  | 5.30 | 11/15/23 | 2,825,000 | 2,936,870 |
| <b>Maryland</b> 2.0%   |      |          |           |           |
| Maryland Economic Development<br>Corp., Senior Student Housing<br>Revenue (University of<br>Maryland, Baltimore Project) | 5.75 | 10/1/33  | 4,500,000 | 4,346,460 |

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STATEMENT OF INVESTMENTS (Unaudited) (continued)

| <b>Long-Term Municipal<br/>Investments (continued)</b>  | Coupon<br>Rate (%) | Maturity<br>Date | Principal<br>Amount (\$) | Value (\$) |
|---|--------------------|------------------|--------------------------|------------|
| <b>Maryland (continued)</b>   |                    |                  |                          |            |
| Maryland Economic Development<br>Corp., Student Housing Revenue<br>(University of Maryland,<br>College Park Project)                    | 6.50               | 6/1/13           | 3,000,000 <sup>b</sup>   | 3,462,120  |
| Maryland Economic Development<br>Corp., Student Housing Revenue<br>(University of Maryland,<br>College Park Project)<br>(Insured; CIFG) | 5.00               | 6/1/33           | 3,500,000 <sup>e</sup>   | 3,631,180  |
| <b>Massachusetts</b> 2.5%   |                    |                  |                          |            |
| Massachusetts Health and<br>Educational Facilities<br>Authority, Revenue (Civic<br>Investments)<br>Massachusetts Health and             | 9.00               | 12/15/15         | 1,900,000                | 2,296,207  |

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Educational Facilities

Authority, Revenue (Partners

|                    |      |        |           |           |
|--------------------|------|--------|-----------|-----------|
| Healthcare System) | 5.75 | 7/1/32 | 5,000,000 | 5,397,900 |
|--------------------|------|--------|-----------|-----------|

Massachusetts Industrial Finance

|  |      |         |           |           |
|--|------|---------|-----------|-----------|
| Agency, RRR (Ogden Haverhill<br>Project) | 5.60 | 12/1/19 | 6,000,000 | 6,268,740 |
|--|------|---------|-----------|-----------|

**Michigan 6.2%**

Charyl Stockwell Academy,

|     |      |         |           |           |
|-----|------|---------|-----------|-----------|
| COP | 5.90 | 10/1/35 | 2,580,000 | 2,610,057 |
|-----|------|---------|-----------|-----------|

Kent Hospital Finance Authority,

|  |      |        |           |           |
|--|------|--------|-----------|-----------|
| Revenue (Metropolitan Hospital<br>Project) | 6.00 | 7/1/35 | 5,930,000 | 6,363,424 |
|--|------|--------|-----------|-----------|

Kent Hospital Finance Authority,

|  |      |        |           |           |
|--|------|--------|-----------|-----------|
| Revenue (Metropolitan Hospital<br>Project) | 6.25 | 7/1/40 | 3,000,000 | 3,261,060 |
|--|------|--------|-----------|-----------|

Michigan Hospital Finance

|  |      |          |                        |           |
|--|------|----------|------------------------|-----------|
| Authority, HR (Ascension<br>Health Credit) | 6.13 | 11/15/09 | 5,000,000 <sup>b</sup> | 5,447,500 |
|--|------|----------|------------------------|-----------|

Michigan Strategic Fund,

|  |      |          |           |           |
|--|------|----------|-----------|-----------|
| LOR (Detroit Edison Co. Exempt<br>Facilities Project) (Insured;<br>XLCA) | 5.25 | 12/15/32 | 3,000,000 | 3,125,430 |
|--|------|----------|-----------|-----------|

Michigan Strategic Fund,

|   |      |        |            |            |
|---|------|--------|------------|------------|
| SWDR (Genesee Power Station<br>Project) | 7.50 | 1/1/21 | 14,530,000 | 14,346,777 |
|---|------|--------|------------|------------|

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

| Coupon<br>Rate (%) | Maturity<br>Date | Principal<br>Amount (\$) | Value (\$) |
|--------------------|------------------|--------------------------|------------|
|--------------------|------------------|--------------------------|------------|

**Minnesota 3.5%**

Duluth Economic Development

|   |      |         |           |           |
|---|------|---------|-----------|-----------|
| Authority, Health Care<br>Facilities Revenue (Saint<br>Luke's Hospital) | 7.25 | 6/15/32 | 5,000,000 | 5,366,750 |
|---|------|---------|-----------|-----------|

Saint Paul Housing and

|   |      |          |           |           |
|---|------|----------|-----------|-----------|
| Redevelopment Authority,<br>Hospital Facility Revenue<br>(HealthEast Project) | 6.00 | 11/15/25 | 2,000,000 | 2,169,440 |
|---|------|----------|-----------|-----------|

Saint Paul Housing and

|   |      |          |           |           |
|---|------|----------|-----------|-----------|
| Redevelopment Authority,<br>Hospital Facility Revenue<br>(HealthEast Project) | 6.00 | 11/15/30 | 2,000,000 | 2,147,200 |
|---|------|----------|-----------|-----------|

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|   |      |         |                        |            |
|---|------|---------|------------------------|------------|
| Saint Paul Port Authority,<br>Hotel Facility Revenue<br>(Radisson Kellogg Project)  | 7.38 | 8/1/08  | 3,000,000 <sup>b</sup> | 3,319,170  |
| United Hospital District of Todd,<br>Morrison, Cass and Wadena<br>Counties, GO, Health<br>Care Facilities Revenue<br>(Lakewood Health System) | 5.13 | 12/1/24 | 1,500,000              | 1,544,325  |
| Winona,<br>Health Care Facilities Revenue<br>(Winona Health)  | 6.00 | 7/1/26  | 5,000,000              | 5,304,700  |
| <b>Mississippi</b> 3.4%   |      |         |                        |            |
| Clairborne County,<br>PCR (System Energy Resources,<br>Inc.)  | 6.20 | 2/1/26  | 4,545,000              | 4,589,677  |
| Mississippi Business Finance<br>Corp., PCR (System Energy<br>Resource Inc. Project)   | 5.88 | 4/1/22  | 14,310,000             | 14,453,100 |
| <b>Missouri</b> 2.9%  |      |         |                        |            |
| Missouri Development Finance<br>Board, Infrastructure<br>Facilities Revenue (Branson<br>Landing Project)                                      | 5.38 | 12/1/27 | 2,000,000              | 2,060,780  |
| Missouri Development Finance<br>Board, Infrastructure<br>Facilities Revenue (Branson<br>Landing Project)                                      | 5.50 | 12/1/32 | 4,500,000              | 4,652,955  |

The Fund **13**

STATEMENT OF INVESTMENTS (Unaudited) (continued)

| <b>Long-Term Municipal<br/>Investments (continued)</b>  | Coupon<br>Rate (%) | Maturity<br>Date | Principal<br>Amount (\$) | Value (\$) |
|---|--------------------|------------------|--------------------------|------------|
| <b>Missouri (continued)</b>   |                    |                  |                          |            |
| Missouri Development Finance<br>Board, Infrastructure<br>Facilities Revenue<br>(Independence, Crackerneck<br>Creek Project) | 5.00               | 3/1/28           | 2,000,000                | 2,041,480  |
| Missouri Health and Educational<br>Facilities Authority, Health<br>Facilities Revenue (Saint<br>Anthony's Medical Center)   | 6.25               | 12/1/10          | 6,750,000 <sup>b</sup>   | 7,508,835  |

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**Montana** 3.3%

Montana Board of Housing,  
SFMR 6.45 6/1/29 1,490,000 1,496,079

**Nevada** 2.9%

Clark County,  
IDR (Nevada Power Co. Project) 5.60 10/1/30 3,000,000 2,984,970

Washoe County  
(Reno-Sparks Convention  
Center) (Insured; FSA) 6.40 1/1/10 12,000,000<sup>b</sup> 13,126,080

**New Hampshire** 2.6%

New Hampshire Business Finance  
Authority, PCR (Public Service  
Co. of New Hampshire)  
(Insured; AMBAC) 6.00 5/1/21 7,000,000 7,426,860

New Hampshire Health and  
Educational Facilities  
Authority, Revenue (Exeter  
Project) 6.00 10/1/24 1,000,000 1,102,530

New Hampshire Health and  
Educational Facilities  
Authority, Revenue (Exeter  
Project) 5.75 10/1/31 1,000,000 1,060,610

New Hampshire Industrial  
Development Authority, PCR  
(Connecticut Light) 5.90 11/1/16 5,000,000 5,150,500

**New Jersey** 5.3%

New Jersey Economic Development  
Authority, Cigarette Tax  
Revenue 5.75 6/15/34 2,500,000 2,623,875

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

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

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**New Jersey (continued)**

New Jersey Health Facilities  
Financing Authority, Revenue  
(Christian Health Care Center) 8.75 7/1/06 12,745,000<sup>b</sup> 13,143,026

New Jersey Turnpike Authority,  
Turnpike Revenue (Insured;  
AMBAC) 5.00 1/1/35 4,500,000 4,636,035

Tobacco Settlement Financing Corp.  
of New Jersey, Tobacco  
Settlement Asset-Backed Bonds 7.00 6/1/41 8,320,000 9,480,390

**New Mexico** 1.5%

Farmington,

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|   |      |         |                           |            |
|---|------|---------|---------------------------|------------|
| PCR (Public Service Company of New Mexico San Juan and Four Corners Project)<br>Farmington,   | 4.88 | 4/1/33  | 2,500,000 <sup>e</sup>    | 2,500,000  |
| PCR (Tucson Electric Power Co. San Juan)<br>New Mexico Mortgage Finance Authority, SFMR<br>(Collateralized: FHLMC, FNMA and GNMA)                   | 6.95 | 10/1/20 | 4,000,000                 | 4,161,760  |
| <b>New York</b> 6.6%  |      |         |                           |            |
| Long Island Power Authority, Electric System Revenue<br>New York City Industrial Development Agency, Liberty Revenue (7 World Trade Center Project) | 6.28 | 12/1/16 | 10,000,000 <sup>c,d</sup> | 10,837,800 |
| New York City Industrial Development Agency, Special Facility Revenue (American Airlines, Inc. John F. Kennedy International Airport Project)       | 8.00 | 8/1/28  | 2,800,000                 | 3,160,500  |
| New York Liberty Development Corp., Revenue (Goldman Sachs Headquarters Issue)  | 5.25 | 10/1/35 | 5,000,000                 | 5,508,900  |
| Tobacco Settlement Financing Corp. of New York  | 5.50 | 6/1/20  | 3,500,000                 | 3,784,480  |

The Fund **15**

STATEMENT OF INVESTMENTS (Unaudited) *(continued)*

| <b>Long-Term Municipal Investments (continued)</b>   | Coupon Rate (%) | Maturity Date | Principal Amount (\$) | Value (\$) |
|--|-----------------|---------------|-----------------------|------------|
| <b>New York (continued)</b>  |                 |               |                       |            |
| Tobacco Settlement Financing Corp. of New York (Insured; AMBAC)  | 5.25            | 6/1/21        | 5,000,000             | 5,320,100  |
| Triborough Bridge and Tunnel Authority, Revenue  | 5.25            | 11/15/30      | 5,220,000             | 5,502,715  |
| <b>North Carolina</b> 6%   |                 |               |                       |            |
| Gaston County Industrial Facilities and Pollution Control Financing Authority, Exempt Facilities Revenue |                 |               |                       |            |

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|  |      |         |           |           |
|--|------|---------|-----------|-----------|
| (National Gypsum Co. Project)  | 5.75 | 8/1/35  | 3,000,000 | 3,146,850 |
| <b>North Dakota 2.2%</b>   |      |         |           |           |
| North Dakota Housing Finance Agency, Home Mortgage Revenue (Housing Finance Program)                                 | 6.15 | 7/1/31  | 1,090,000 | 1,095,603 |
| <b>Ohio 6.6%</b>   |      |         |           |           |
| Canal Winchester Local School District (Insured; MBIA)   | 0.00 | 12/1/29 | 3,955,000 | 1,288,302 |
| Canal Winchester Local School District (Insured; MBIA)   | 0.00 | 12/1/31 | 3,955,000 | 1,164,747 |
| Cincinnati, Water Systems Revenue  | 5.00 | 12/1/21 | 3,800,000 | 3,954,508 |
| Cincinnati School District Board of Education, GO (Classroom Facilities Construction and Improvement) (Insured; FSA) | 5.00 | 12/1/31 | 2,000,000 | 2,072,640 |
| Cleveland State University, General Receipts (Insured; FGIC)   | 5.00 | 6/1/34  | 5,000,000 | 5,177,600 |
| Cuyahoga County, Revenue   | 6.00 | 1/1/32  | 750,000   | 829,620   |
| Ohio Air Quality Development Authority, PCR (Cleveland Electric Illuminating Co. Project) (Insured; ACA)             | 6.10 | 8/1/20  | 3,000,000 | 3,110,850 |

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| <b>Long-Term Municipal Investments (continued)</b>   | Coupon Rate (%) | Maturity Date | Principal Amount (\$) | Value (\$) |
|--|-----------------|---------------|-----------------------|------------|
| <b>Ohio (continued)</b>  |                 |               |                       |            |
| Ohio Water Development Authority, PCR (Cleveland Electric Illuminating Co. Project) (Insured; ACA) | 6.10            | 8/1/20        | 4,350,000             | 4,510,733  |
| Toledo Lucas County Port Authority, Airport Revenue (Baxter Global Project)                        | 6.25            | 11/1/13       | 4,200,000             | 4,278,036  |
| Trotwood-Madison City School District, School Improvement (Insured; FGIC)                          | 5.00            | 12/1/30       | 10,495,000            | 10,833,359 |
| <b>Oklahoma 2.8%</b>   |                 |               |                       |            |
| Oklahoma Housing Finance Agency, SFMR (Homeownership Loan Program)                                 | 7.55            | 9/1/28        | 1,260,000             | 1,277,413  |



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|   |      |         |                        |           |
|---|------|---------|------------------------|-----------|
| SFMR (Homeownership Loan Program) (Collateralized: FNMA and GNMA)                                 | 7.55 | 9/1/27  | 1,315,000              | 1,353,332 |
| Oklahoma Industries Authority, Health System Revenue (Obligated Group) (Insured; MBIA)            | 5.75 | 8/15/09 | 5,160,000 <sup>b</sup> | 5,526,773 |
| Oklahoma Industries Authority, Health System Revenue (Obligated Group) (Insured; MBIA)            | 5.75 | 8/15/29 | 7,070,000              | 7,513,148 |
| <b>Oregon</b> 2.5%  |      |         |                        |           |
| Port of Portland, International Airport Revenue (Portland International Airport) (Insured; AMBAC) | 5.50 | 7/1/24  | 5,000,000              | 5,260,700 |
| Western Generation Agency, Cogeneration Project Revenue (Wauna Cogeneration Project)              | 7.40 | 1/1/16  | 5,750,000              | 5,813,998 |

The Fund

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STATEMENT OF INVESTMENTS (Unaudited) (continued)

| <b>Long-Term Municipal Investments (continued)</b>  | Coupon Rate (%) | Maturity Date | Principal Amount (\$) | Value (\$) |
|---|-----------------|---------------|-----------------------|------------|
| <b>Oregon (continued)</b>   |                 |               |                       |            |
| Western Generation Agency, Cogeneration Project Revenue (Wauna Cogeneration Project)                                  | 7.13            | 1/1/21        | 2,900,000             | 2,930,305  |
| <b>Pennsylvania</b> 2.0%  |                 |               |                       |            |
| Abington School District (Insured; FSA)   | 5.13            | 10/1/34       | 4,085,000             | 4,275,443  |
| Pennsylvania Economic Development Financing Authority, Exempt Facilities Revenue (Reliant Energy Seward, LLC Project) | 6.75            | 12/1/36       | 2,500,000             | 2,669,850  |
| York County Hospital Authority, Revenue (Health Center-Lutheran Social Services)                                      | 6.50            | 4/1/22        | 4,250,000             | 4,285,530  |
| <b>South Carolina</b> 3.0%  |                 |               |                       |            |

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|   |      |         |                |            |
|---|------|---------|----------------|------------|
| Greenville County School District,<br>Installment Purchase Revenue<br>(Building Equity Sooner for<br>Tomorrow)                      | 5.50 | 12/1/28 | 5,000          | 5,449      |
| Greenville County School District,<br>Installment Purchase Revenue<br>(Building Equity Sooner for<br>Tomorrow)                      | 7.57 | 12/1/28 | 10,010,000 c,d | 11,808,997 |
| Greenville Hospital System,<br>Hospital Facilities Revenue<br>(Insured; AMBAC)  | 5.50 | 5/1/26  | 5,000,000      | 5,350,200  |
| <b>Tennessee 3.4%</b>   |      |         |                |            |
| Johnson City Health and<br>Educational Facilities Board,<br>Hospital First Mortgage<br>Revenue (Mountain States<br>Health Alliance) | 7.50 | 7/1/25  | 5,000,000      | 5,850,350  |
| Johnson City Health and<br>Educational Facilities Board,<br>Hospital First Mortgage<br>Revenue (Mountain States<br>Health Alliance) | 7.50 | 7/1/33  | 3,000,000      | 3,493,290  |
| Memphis Center City Revenue<br>Finance Corp., Sports Facility<br>Revenue (Memphis Redbirds)   | 6.50 | 9/1/28  | 10,000,000     | 9,806,400  |

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

|  | Coupon<br>Rate (%) | Maturity<br>Date | Principal<br>Amount (\$) | Value (\$) |
|--|--------------------|------------------|--------------------------|------------|
| <b>Texas 12.7%</b>   |                    |                  |                          |            |
| Alliance Airport Authority Inc,<br>Special Facilities Revenue<br>(American Airlines, Inc. Project) | 7.50               | 12/1/29          | 7,500,000                | 7,360,575  |
| Austin Convention Enterprises<br>Inc., Convention Center Hotel<br>Revenue                          | 6.70               | 1/1/28           | 4,000,000                | 4,268,120  |
| Brazos River Authority,<br>PCR (TXU Energy Co. LLC<br>Project)                                     | 6.75               | 10/1/38          | 1,650,000                | 1,865,226  |
| Dallas-Fort Worth International<br>Airport, Facility Improvement<br>Corp. Revenue (American        |                    |                  |                          |            |

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|   |       |         |                        |            |
|---|-------|---------|------------------------|------------|
| Airlines Inc.)<br>Dallas-Fort Worth International<br>Airport, Facility Improvement<br>Corp. Revenue (Bombardier Inc.)       | 6.38  | 5/1/35  | 6,630,000              | 5,855,616  |
| Harris County Health Facilities<br>Development Corp., HR<br>(Memorial Hermann Healthcare<br>System)                         | 6.38  | 6/1/11  | 8,500,000 <sup>b</sup> | 9,562,755  |
| Houston,<br>Airport System Special<br>Facilities Revenue<br>(Continental Airlines Inc.<br>Terminal E Project)               | 6.75  | 7/1/29  | 5,125,000              | 5,198,441  |
| Houston,<br>Airport System Special<br>Facilities Revenue<br>(Continental Airlines Inc.<br>Terminal E Project)               | 7.00  | 7/1/29  | 3,800,000              | 3,902,638  |
| Sabine River Authority,<br>PCR (TXU Electric Co. Project)   | 6.45  | 6/1/21  | 11,300,000             | 12,088,401 |
| Sam Rayburn Municipal Power<br>Agency, Power Supply System<br>Revenue   | 5.75  | 10/1/21 | 6,000,000              | 6,517,140  |
| Texas Department of Housing and<br>Community Affairs, Home<br>Mortgage Revenue<br>(Collateralized: FHLMC, FNMA<br>and GNMA) | 10.27 | 7/2/24  | 1,300,000 <sup>c</sup> | 1,320,592  |

The Fund **19**

STATEMENT OF INVESTMENTS (Unaudited) *(continued)*

| <b>Long-Term Municipal<br/>Investments (continued)</b>  | Coupon<br>Rate (%) | Maturity<br>Date | Principal<br>Amount (\$) | Value (\$) |
|---|--------------------|------------------|--------------------------|------------|
| <b>Texas (continued)</b>  |                    |                  |                          |            |
| Texas Turnpike Authority,<br>Central Texas Turnpike System<br>Revenue (Insured; AMBAC)                                | 5.75               | 8/15/38          | 7,100,000                | 7,772,015  |
| Tyler Health Facilities<br>Development Corp., HR (East<br>Texas Medical Center Regional<br>Healthcare System Project) | 6.75               | 11/1/25          | 3,000,000                | 3,045,300  |
| <b>Utah 7%</b>  |                    |                  |                          |            |

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|   |      |         |                         |            |
|---|------|---------|-------------------------|------------|
| Carbon County,<br>SWDR (Sunnyside Cogeneration)   | 7.10 | 8/15/23 | 3,722,000               | 3,970,183  |
| <b>Vermont 2.2%</b>   |      |         |                         |            |
| Vermont Housing Finance Agency,<br>Single Family Housing<br>(Insured; FSA)  | 6.40 | 11/1/30 | 1,335,000               | 1,338,204  |
| <b>Virginia 3.1%</b>  |      |         |                         |            |
| Greater Richmond Convention Center<br>Authority, Hotel Tax Revenue<br>(Convention Center Expansion<br>Project)                              | 6.25 | 6/15/10 | 10,500,000 <sup>b</sup> | 11,615,940 |
| Industrial Development Authority<br>of Pittsylvania County, Exempt<br>Facility Revenue (Multitrade<br>of Pittsylvania County, L.P. Project) | 7.65 | 1/1/10  | 800,000                 | 853,456    |
| Tobacco Settlement Financing Corp.<br>of Virginia, Tobacco<br>Settlement Asset-Backed Bonds   | 5.63 | 6/1/37  | 4,750,000               | 4,883,143  |
| <b>Washington 2.8%</b>  |      |         |                         |            |
| Energy Northwest,<br>Wind Project Revenue<br>Seattle,   | 5.88 | 1/1/07  | 3,000,000 <sup>b</sup>  | 3,137,820  |
| Water System Revenue (Insured;<br>FGIC)   | 6.00 | 7/1/09  | 10,000,000 <sup>b</sup> | 10,797,500 |
| Snohomish County Housing<br>Authority, Revenue (Whispering<br>Pines Apartments Project)   | 5.60 | 9/1/25  | 1,675,000               | 1,662,186  |

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| <b>Long-Term Municipal<br/>Investments (continued)</b>                                      | Coupon<br>Rate (%) | Maturity<br>Date | Principal<br>Amount (\$) | Value (\$) |
|---|--------------------|------------------|--------------------------|------------|
| <b>West Virginia 3.0%</b>   |                    |                  |                          |            |
| Braxton County,<br>SWDR<br>(Weyerhaeuser Co. Project)                                       | 6.13               | 4/1/26           | 14,000,000               | 14,491,400 |
| West Virginia Water Development<br>Authority, Water Development<br>Revenue (Insured; AMBAC) | 6.38               | 7/1/39           | 2,250,000                | 2,467,935  |
| <b>Wisconsin 7.1%</b>   |                    |                  |                          |            |
| Badger Tobacco Asset<br>Securitization Corp., Tobacco<br>Settlement Asset-Backed Bonds      | 8.40               | 6/1/27           | 6,520,000 <sup>c,d</sup> | 7,278,602  |
| Badger Tobacco Asset<br>Securitization Corp., Tobacco<br>Settlement Asset-Backed Bonds      | 7.00               | 6/1/28           | 22,995,000               | 25,750,261 |

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|   |      |         |                        |                    |
|---|------|---------|------------------------|--------------------|
| Madison,<br>IDR (Madison Gas and<br>Electric Co.)   | 5.88 | 10/1/34 | 2,390,000              | 2,555,053          |
| Wisconsin Health and Educational<br>Facilities Authority, Revenue<br>(Aurora Health Care) | 6.40 | 4/15/33 | 4,000,000              | 4,400,160          |
| <b>Wyoming 0.8%</b>   |      |         |                        |                    |
| Sweetwater County,<br>SWDR (FMC Corp. Project)  | 5.60 | 12/1/35 | 4,500,000              | 4,676,670          |
| <b>U.S. Related 1.5%</b>  |      |         |                        |                    |
| Children's Trust Fund of Puerto<br>Rico, Tobacco Settlement<br>Revenue Asset-Backed Bonds | 0.00 | 5/15/55 | 20,000,000             | 693,000            |
| Guam Housing Corp.,<br>SFMR<br>(Collateralized; FHLMC)                                    | 5.75 | 9/1/31  | 965,000                | 1,065,775          |
| Puerto Rico Highway and<br>Transportation Authority,<br>Transportation Revenue            | 6.00 | 7/1/10  | 6,000,000 <sup>b</sup> | 6,575,400          |
| <b>Total Long-Term Municipal Investments</b><br>(cost \$790,706,061)                      |      |         |                        | <b>836,804,379</b> |

The Fund **21**

STATEMENT OF INVESTMENTS (Unaudited) (continued)

| <b>Options 0.0%</b>  |                    |                  | Face Amount<br>Covered by<br>Contracts (\$) | Value (\$)     |
|--|--------------------|------------------|---|----------------|
| <b>Put Options</b>   |                    |                  |   |                |
| June 2006 10 Year Future   |                    |                  |   |                |
| May 2006 @ 106<br>(cost \$236,410)   |                    |                  | 470   | <b>264,375</b> |
| <b>Short-Term Municipal<br/>Investments 1.8%</b>                                     | Coupon<br>Rate (%) | Maturity<br>Date | Principal<br>Amount (\$)                    | Value (\$)     |
| <b>Alaska 1.0%</b>   |                    |                  |   |                |
| Valdez,<br>Marine Terminal Revenue,<br>Refunding (Exxon Pipeline<br>Company Project) | 3.00               | 4/1/06           | 6,100,000 <sup>f</sup>                      | 6,100,000      |
| <b>Indiana 0.4%</b>  |                    |                  |   |                |
| Mount Vernon,  |                    |                  |   |                |

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|   |      |        |                        |                   |
|---|------|--------|------------------------|-------------------|
| Pollution Control and Solid Waste Disposal Revenue, Refunding (General Electric Company Project)                            | 3.11 | 4/1/06 | 2,100,000 <sup>f</sup> | 2,100,000         |
| <b>Massachusetts .4%</b><br>Massachusetts Health and Educational Facilities Authority, Revenue (Partners HealthCare System) | 3.08 | 4/1/06 | 2,065,000 <sup>f</sup> | 2,065,000         |
| <b>Total Short-Term Municipal Investments</b><br>(cost \$10,265,000)  |      |        |                        | <b>10,265,000</b> |

|   |                |                      |
|---|----------------|----------------------|
| <b>Total Investments</b> (cost \$801,207,471)       | <b>150.5%</b>  | <b>847,333,754</b>   |
| <b>Cash and Receivables (Net)</b>                   | <b>.1%</b>     | <b>612,981</b>       |
| <b>Preferred Stock, at redemption value</b>         | <b>(50.6%)</b> | <b>(285,000,000)</b> |
| <b>Net Assets Applicable to Common Shareholders</b> | <b>100.0%</b>  | <b>562,946,735</b>   |

<sup>a</sup> Non-income producing security; interest payment in default.

<sup>b</sup> 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.

<sup>c</sup> Inverse floater security; the interest rate is subject to periodic change periodically.

<sup>d</sup> Securities exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions exempt from registration, normally to qualified institutional buyers. At March 31, 2006, these securities amounted to \$34,670,386 or 6.2% of net assets applicable to Common Shareholders.

<sup>e</sup> Purchased on a delayed delivery basis.

<sup>f</sup> Securities payable on demand. Variable interest rate; subject to periodic change.

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Summary of Abbreviations

|             |                                      |              |   |
|-------------|--------------------------------------|--------------|---|
| <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>BIGI</b> | Bond Investors Guaranty Insurance    | <b>BPA</b>   | Bond Purchase Agreement                       |
| <b>CGIC</b> | Capital Guaranty Insurance Company   | <b>CIC</b>   | Continental Insurance Company                 |
| <b>CIFG</b> | CDC Ixis Financial Guaranty          | <b>CMAC</b>  | Capital Market Assurance Corporation          |
| <b>COP</b>  | Certificate of Participation         | <b>CP</b>    | Commercial Paper                              |
| <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                    |

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|             |   |               |  |
|-------------|---|---------------|--|
|             |   |               | Corporation  |
| <b>FNMA</b> | Federal National<br>Mortgage Association    | <b>FSA</b>    | Financial Security Assurance                                   |
| <b>GAN</b>  | Grant Anticipation Notes                    | <b>GIC</b>    | Guaranteed Investment Contract                                 |
| <b>GNMA</b> | Government National<br>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>LOC</b>  | Letter of Credit                            | <b>LOR</b>    | Limited Obligation Revenue                                     |
| <b>LR</b>   | Lease Revenue                               | <b>MBIA</b>   | Municipal Bond Investors<br>Assurance Insurance<br>Corporation |
| <b>MFHR</b> | Multi-Family Housing Revenue                | <b>MFMR</b>   | Multi-Family Mortgage Revenue                                  |
| <b>PCR</b>  | Pollution Control Revenue                   | <b>RAC</b>    | Revenue Anticipation<br>Certificates                           |
| <b>RAN</b>  | Revenue Anticipation Notes                  | <b>RAW</b>    | Revenue Anticipation Warrants                                  |
| <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<br>Agency                           |
| <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<br>Anticipation Notes                          |
| <b>XLCA</b> | XL Capital Assurance                        |               |  |

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STATEMENT OF INVESTMENTS (Unaudited) *(continued)*

Summary of Combined Ratings (Unaudited)

| Fitch                  | or Moody's             | or | Standard & Poor's      | Value (%) <sup>□</sup> |
|------------------------|------------------------|----|------------------------|------------------------|
| AAA                    | Aaa                    |    | AAA                    | 31.9                   |
| AA                     | Aa                     |    | AA                     | 8.7                    |
| A                      | A                      |    | A                      | 13.3                   |
| BBB                    | Baa                    |    | BBB                    | 24.1                   |
| BB                     | Ba                     |    | BB                     | 1.8                    |
| B                      | B                      |    | B                      | 3.8                    |
| CCC                    | Caa                    |    | CCC                    | 2.5                    |
| F1                     | MIG1/P1                |    | SP1/A1                 | .9                     |
| Not Rated <sup>g</sup> | Not Rated <sup>g</sup> |    | Not Rated <sup>g</sup> | 13.0                   |
|                        |                        |    |                        | <b>100.0</b>           |

<sup>□</sup> Based on total investments.  
 Securities which, while not rated by Fitch, Moody's and Standard & Poor's, have been determined by the  
<sup>g</sup> 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

March 31, 2006 (Unaudited)

|  | Cost        | Value              |
|--|-------------|--------------------|
| <b>Assets (\$):</b>  |             |                    |
| Investments in securities—See Statement of Investments   | 801,207,471 | 847,333,754        |
| Interest receivable  |             | 14,722,206         |
| Receivable for investment securities sold  |             | 6,173,250          |
| Prepaid expenses   |             | 55,953             |
|  |             | <b>868,285,163</b> |
| <b>Liabilities (\$):</b>   |             |                    |
| Due to The Dreyfus Corporation and affiliates—Note 3(b)  |             | 506,512            |
| Payable for investment securities purchased  |             | 19,496,114         |
| Dividends payable to Preferred Shareholders  |             | 71,474             |
| Cash overdraft due to Custodian  |             | 64,329             |
| Administrative service fees  |             | 8,742              |
| Accrued expenses   |             | 191,257            |
|  |             | <b>20,338,428</b>  |
| <b>Auction Preferred Stock</b> , Series M, T, W, Th and F<br>par value \$.001 per share (11,400 shares<br>issued and outstanding at \$25,000 per share<br>liquidation preference)—Note 1 |             | <b>285,000,000</b> |
| <b>Net Assets applicable to Common Shareholders (\$)</b>   |             | <b>562,946,735</b> |
| <b>Composition of Net Assets (\$):</b>   |             |                    |
| Common Stock, par value \$.001 per share<br>(60,588,631 shares issued and outstanding)   |             | 60,589             |
| Paid-in capital  |             | 571,194,784        |
| Accumulated distributions in excess of investment income—net   |             | (52,717)           |
| Accumulated net realized gain (loss) on investments  |             | (54,382,204)       |
| Accumulated net unrealized appreciation<br>(depreciation) on investments and options transactions  |             | 46,126,283         |
| <b>Net Assets applicable to Common Shareholders (\$)</b>   |             | <b>562,946,735</b> |
| <b>Shares Outstanding</b>  |             |                    |
| (500 million shares authorized)  |             | 60,588,631         |
| <b>Net Asset Value</b> , per share of Common Stock (\$)  |             | <b>9.29</b>        |



See notes to financial statements.

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## STATEMENT OF OPERATIONS

Six Months Ended March 31, 2006 (Unaudited)

### Investment Income (\$):

|  |                   |
|--|-------------------|
| <b>Interest Income</b>   | <b>23,562,804</b> |
| <b>Expenses:</b>   |                   |
| Management fee—Note 3(a)   | 3,169,046         |
| Commission fee—Note 1  | 382,035           |
| Custodian fees—Note 3(b)   | 72,585            |
| Shareholder servicing costs                                      | 60,999            |
| Professional fees  | 38,606            |
| Shareholders' reports  | 37,459            |
| Registration fees  | 26,988            |
| Directors' fees and expenses—Note 3(c)                           | 23,046            |
| Interest expense—Note 2  | 992               |
| Miscellaneous  | 30,463            |
| <b>Total Expenses</b>  | <b>3,842,219</b>  |
| Less—reduction in management fee<br>due to undertaking—Note 3(a) | (422,540)         |
| <b>Net Expenses</b>  | <b>3,419,679</b>  |
| <b>Investment Income—Net</b>                                     | <b>20,143,125</b> |

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

|  |                    |
|--|--------------------|
| Net realized gain (loss) on investments and options transactions | 1,384,010          |
| Net unrealized appreciation (depreciation) on investments        | (6,572,677)        |
| <b>Net Realized and Unrealized Gain (Loss) on Investments</b>    | <b>(5,188,667)</b> |
| <b>Dividends on Preferred Stock</b>                              | <b>(4,034,075)</b> |
| <b>Net Increase in Net Assets Resulting from Operations</b>      | <b>10,920,383</b>  |

See notes to financial statements.

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## STATEMENT OF CHANGES IN NET ASSETS

|  | Six Months Ended<br>March 31, 2006<br>(Unaudited) | Year Ended<br>September 30, 2005 |
|--|---|----------------------------------|
| <b>Operations (\$):</b>                                      |   |                                  |
| Investment income—net  | 20,143,125  | 39,711,581                       |
| Net realized gain (loss) on investments                      | 1,384,010   | 4,278,800                        |
| Net unrealized appreciation<br>(depreciation) on investments | (6,572,677)                                       | 8,461,372                        |
| Dividends on Preferred Stock                                 | (4,034,075)                                       | (5,765,999)                      |

|  |                     |                     |
|--|---------------------|---------------------|
| <b>Net Increase (Decrease) in Net Assets Resulting from Operations</b> | <b>10,920,383</b>   | <b>46,685,754</b>   |
| <b>Dividends to Shareholders from (\$):</b>                            |                     |                     |
| <b>Investment income</b> net   | <b>(16,237,755)</b> | <b>(34,656,704)</b> |
| <b>Capital Stock Transactions (\$):</b>                                |                     |                     |
| Dividends reinvested   | 0                   | 0                   |
| <b>Total Increase (Decrease) in Net Assets</b>                         | <b>(5,317,372)</b>  | <b>12,029,050</b>   |
| <b>Net Assets (\$):</b>  |                     |                     |
| Beginning of Period  | 568,264,107         | 556,235,057         |
| <b>End of Period</b>   | <b>562,946,735</b>  | <b>568,264,107</b>  |
| Undistributed investment income (loss) net                             | (52,717)            | 75,988              |
| <b>Capital Share Transactions (Shares):</b>                            |                     |                     |
| Shares issued for dividends reinvested                                 | 0                   | 0                   |

See notes to financial statements.

The Fund 27

## 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

|   | March 31, 2006   | Year Ended September 30, |                  |                  |                   |       |
|---|------------------|--------------------------|------------------|------------------|-------------------|-------|
|   | (Unaudited)      | 2005                     | 2004             | 2003             | 2002 <sup>a</sup> | 2001  |
| <b>Per Share Data (\$):</b>                             |                  |                          |                  |                  |                   |       |
| Net asset value, beginning of period                    | 9.38             | 9.18                     | 9.14             | 9.37             | 9.66              | 9.38  |
| Investment Operations:                                  |                  |                          |                  |                  |                   |       |
| Investment income net                                   | .33 <sup>b</sup> | .66 <sup>b</sup>         | .63 <sup>b</sup> | .71 <sup>b</sup> | .81 <sup>b</sup>  | .82   |
| Net realized and unrealized gain (loss) on investments  | (.08)            | .21                      | .12              | (.15)            | (.35)             | .18   |
| Dividends on Preferred Stock from net investment income | (.07)            | (.10)                    | (.06)            | (.07)            | (.08)             | (.16) |
| Total from Investment Operations                        | .18              | .77                      | .69              | .49              | .38               | .84   |
| Distributions to Common Shareholders:                   |                  |                          |                  |                  |                   |       |
| Dividends from investment                               |                  |                          |                  |                  |                   |       |

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|                                      |                   |       |       |       |       |       |
|--------------------------------------|-------------------|-------|-------|-------|-------|-------|
| income□net                           | (.27)             | (.57) | (.65) | (.72) | (.67) | (.56) |
| Net asset value, end of period       | 9.29              | 9.38  | 9.18  | 9.14  | 9.37  | 9.66  |
| Market value, end of period          | 8.88              | 8.87  | 8.86  | 9.38  | 10.11 | 9.69  |
| <b>Total Return (%) <sup>c</sup></b> | 2.11 <sup>d</sup> | 6.87  | 1.55  | .33   | 11.89 | 20.22 |

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Six Months Ended

March 31, 2006

Year Ended September 30,

|  | (Unaudited)        | 2005    | 2004    | 2003    | 2002 <sup>a</sup> | 2001    |
|--|--------------------|---------|---------|---------|-------------------|---------|
| <b>Ratios/Supplemental Data (%):</b>   |                    |         |         |         |                   |         |
| Ratio of total expenses to average net assets applicable to Common Stock <sup>e</sup>        | 1.37 <sup>f</sup>  | 1.37    | 1.38    | 1.40    | 1.38              | 1.39    |
| Ratio of net expense to average net assets applicable to Common Stock <sup>e</sup>           | 1.22 <sup>f</sup>  | 1.23    | 1.38    | 1.40    | 1.38              | 1.39    |
| Ratio of net investment income to average net assets applicable to Common Stock <sup>e</sup> | 7.18 <sup>f</sup>  | 7.03    | 6.97    | 7.86    | 8.61              | 8.49    |
| Ratio of total expenses to total average net assets <sup>e</sup>                             | .91 <sup>f</sup>   | .91     | .91     | .92     | .91               | .92     |
| Ratio of net expenses to total average net assets <sup>e</sup>                               | .81 <sup>f</sup>   | .82     | .91     | .92     | .91               | .92     |
| Ratio of net investment income to total average net assets <sup>e</sup>                      | 4.77 <sup>f</sup>  | 4.67    | 4.59    | 5.15    | 5.69              | 5.65    |
| Portfolio Turnover Rate  | 16.40 <sup>d</sup> | 27.96   | 27.31   | 54.79   | 36.81             | 10.07   |
| Asset coverage of Preferred Stock  | 298                | 299     | 295     | 293     | 294               | 299     |
| Net Assets, net of Preferred Stock, end of period (\$ x 1,000)                               | 562,947            | 568,264 | 556,235 | 549,676 | 554,757           | 565,725 |
| Preferred Stock outstanding, end of period (\$ x 1,000)                                      | 285,000            | 285,000 | 285,000 | 285,000 | 285,000           | 285,000 |

<sup>a</sup> As required, effective October 1, 2001, the fund has adopted the provisions of the AICPA Audit and Accounting Guide for Investment Companies and began accreting discount or amortizing premium on a scientific basis for debt securities on a daily basis. The effect of this change for the period ended September 30, 2002 was to increase net investment income per share and decrease net realized and unrealized gain (loss) on investments per share by less than \$.01 and increase the ratio of net investment income to average net assets from 8.58% to 8.61%. Per share data and ratios/supplemental data for periods prior to November 1, 2001 have not been restated to reflect this change in presentation.

<sup>b</sup> Based on average shares outstanding at each month end.

<sup>c</sup> Calculated based on market value.

- d *Not annualized.*
- e *Does not reflect the effect of dividends to Preferred Stockholders.*
- 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") serves as the fund's investment adviser. The Manager is a wholly-owned subsidiary of Mellon Financial Corporation ("Mellon Financial"). The fund's Common Stock trades on the New York Stock Exchange under the ticker symbol LEO.

The fund has outstanding 2,280 shares of Series M, Series T, Series W, Series TH and Series F for a total of 11,400 shares of Auction Preferred Stock ("APS"), with a liquidation preference of \$25,000 per share (plus an amount equal to accumulated but unpaid dividends upon liquidation). APS dividend rates are determined pursuant to periodic auctions. Deutsche Bank Trust Company America, as Auction Agent, receives a fee from the fund for its services in connection with such auctions. The fund also compensates broker-dealers generally at an annual rate of .25% of the purchase price of the shares of APS placed by the broker-dealer in an auction.

The fund is subject to certain restrictions relating to the APS. Failure to comply with these restrictions could preclude the fund from declaring any distributions to common shareholders or repurchasing common shares and/or could trigger the mandatory redemption of APS at liquidation value.

The holders of the APS, voting as a separate class, have the right to elect at least two directors. The holders of the APS will vote as a separate class on certain other matters, as required by law. The fund has designated Robin R. Melvin and John E. Zuccotti to represent holders of APS on the fund's Board of Directors.

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The fund's financial statements are prepared in accordance with U.S. generally accepted accounting principles, 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:** Investments in municipal debt securities are valued on the last business day of each week and month by an independent pricing service (the "Service") approved by the Board of Directors. Investments for which quoted bid prices are readily available and are representative of the bid side of the market in the judgment of the Service are valued at the mean between the quoted bid prices (as obtained by the Service from dealers in such securities) and asked prices (as calculated by the Service based upon its evaluation of the market for such securities). Other investments (which constitute a majority of the portfolio securities) are carried at fair value as determined by the Service, based on methods which include consideration of: yields or prices of municipal securities of comparable quality, coupon, maturity and type; indications as to values from dealers; and general market conditions. Options and financial futures on municipal and U.S. Treasury securities are valued at the last sales price on the securities exchange on which such securities are primarily traded or at the last sales price on the national securities market on the last business day of each week and month.

**(b) Securities transactions and investment income:** Securities transactions are recorded on a trade date basis. Realized gain and loss from securities transactions are recorded on the identified cost basis. Interest

The Fund **31**

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

income, adjusted for accretion of discount and amortization of premium on investments, is earned from settlement date and recognized on the accrual basis. Securities purchased or sold on a when-issued or delayed-delivery basis may be settled a month or more after the trade date.

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

For Common Shareholders who elect to receive their distributions in additional shares of the fund, in lieu of cash, such distributions will be reinvested at the lower of the market price or net asset value per share (but not less than 95% of the market price) based on the record date's respective prices. If the net asset value per share on the record date is lower than the market price per share, shares will be issued by the fund at the record date's net asset value on the payable date of the distribution. If the net asset value per share is less than 95% of the market value, shares will be issued by the fund at 95% of the market value. If the market price is lower than the net asset value per share on the record date, The Bank of New York will purchase fund shares in the open market commencing on the payable date and reinvest those shares accordingly. As a result of purchasing fund shares in the open market, fund shares outstanding will not be affected by this form of reinvestment.

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On March 29, 2006, the Board of Directors declared a cash dividend of \$.042 per share from investment income-net, payable on April 27, 2006 to Common Shareholders of record as of the close of business on April 12, 2006.

**(d) Dividends to shareholders of APS:** For APS, dividends are currently reset every 7 days. The dividend rates in effect at March 31, 2006 were as follows: Series M-2.85%, Series T-2.80%, Series W-3.15%, Series TH-3.15% and Series F-2.95% .

**(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.

The fund has an unused capital loss carryover of \$55,829,368 available for federal income tax purposes to be applied against future net securities profits, if any, realized subsequent to September 30, 2005. If not applied, \$7,920,020 of the carryover expires in fiscal 2009, \$76,128 expires in fiscal 2010, \$20,575,114 expires in fiscal 2011 and \$27,258,106 expires in fiscal 2012.

The tax character of distributions paid to shareholders during the fiscal year ended September 30, 2005 were as follows: tax exempt income \$40,422,703. The tax character of current year distributions will be determined at the end of the current fiscal year.

**NOTE 2 Bank Line of Credit:**

The fund participates with other Dreyfus-managed funds in a \$100 million unsecured line of credit primarily to be utilized for temporary or emergency purposes. Interest is charged to the fund based on prevailing market rates in effect at the time of borrowing.

The Fund **33**NOTES TO FINANCIAL STATEMENTS (Unaudited) *(continued)*

The average daily amount of borrowings outstanding under the line of credit during the period ended March 31, 2006 was approximately \$22,400, with a related weighted average annualized interest rate of 5.45% .

**NOTE 3 Management Fee and Other Transactions With Affiliates:**

**(a)** Pursuant to a management agreement (the "Agreement") with the Manager, the management fee is computed at the annual rate of .75% of the value of the fund's average weekly net assets, inclusive of the outstanding auction preferred stock, and is payable monthly. The Agreement provides for an expense reimbursement from the Manager should the fund's aggregate expenses, exclusive of taxes, interest on borrowings, brokerage and extraordinary expenses, in any full fiscal year exceed the lesser of (1) the expense limitation of any state having jurisdiction over the fund or (2) 2% of the first \$10 million, 1 1/2% of the next \$20 million and 1% of the excess over \$30 million of the average value of the fund's net assets. The fund has currently undertaken for the period from October 1, 2005 through October 31, 2006, to waive receipt of a portion of the fund's management fee, in the amount of .10 of the value of the fund's average weekly net assets (including net assets representing auction preferred stock outstanding). The reduction in management fee, pursuant to the undertaking, amounted to \$422,540 during the period ended March 31, 2006.

**(b)** The fund compensates Mellon Trust of New England, N.A., an affiliate of the Manager, under a custody agreement for providing custodial services to the fund. During the period ended March 31, 2006, \$72,585 was charged pursuant to the custody agreement.

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During the period ended March 31, 2006, the fund was charged \$1,910 for services performed by the Chief Compliance Officer.

The components of Due to The Dreyfus Corporation and affiliates in the Statement of Assets and Liabilities consist of: management fees \$540,767, custodian fees \$35,937, and chief compliance officer fees \$1,910, which are offset against an expense reimbursement currently in effect in the amount of \$72,102.

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

**NOTE 4 Securities Transactions:**

The aggregate amount of purchases and sales of investment securities, excluding short-term securities, during the period ended March 31, 2006, amounted to \$141,170,945 and \$136,973,295, respectively.

At March 31, 2006, accumulated net unrealized appreciation on investments was \$46,126,283, consisting of \$48,221,897 gross unrealized appreciation and \$2,095,614 gross unrealized depreciation.

At March 31, 2006, 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).

The Fund **35**

INFORMATION ABOUT THE REVIEW AND APPROVAL OF THE FUND'S INVESTMENT ADVISORY AGREEMENT (Unaudited)

At a meeting of the Board of Directors held on November 14, 2005, the Board considered the re-approval for an annual period of the fund's Management Agreement, pursuant to which the Manager provides the fund with investment advisory and administrative services. The Board members, none of whom are "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 representatives of the Manager.

Analysis of Nature, Extent, and Quality of Services Provided to the Fund. The Board members received a presentation from representatives of the Manager regarding services provided to the fund and other funds in the Dreyfus fund complex, and discussed the nature, extent, and quality of the services provided to the fund pursuant to its Management Agreement. The Manager's representatives noted the fund's closed-end structure, the relationships the Manager has with various intermediaries, the different needs of each intermediary, and the Manager's corresponding need for broad, deep, and diverse resources to be able to provide ongoing shareholder services to fund shareholders.

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

Comparative Analysis of the Fund's Performance, Investment Advisory and Administration Fees, and Expense Ratio. The Board members reviewed the fund's performance, management fee, and expense ratio (with and without the effect of the fund's leveraged structure) and placed significant emphasis on a comparison to a group of comparable funds, and to Lipper category averages. The group of comparable funds previously was approved by the Board for this purpose, and was prepared using a Board-approved selection methodology that was based, in part, on selecting non-affiliated funds reported in the same Lipper category ("General Municipal Debt Funds - Closed End (Leveraged)") as

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the fund. The Board members discussed the results of the comparisons for various periods ended September 30, 2005. The Board members noted the fund's yield performance (with one exception) was higher than the Lipper category averages and comparison group averages for the 1-year, 3-year, 5-year, and 10-year periods on both a net asset value and market price basis (the one exception being the 1-year yield performance relative to the comparison group average on a net asset value basis). The Board members also noted the fund's total return performance, on a net asset value basis, was higher than the Lipper category averages and comparison group averages for the 1-year and 3-year periods, but was lower than the Lipper category averages and comparison group averages for the 5-year and 10-year periods, and further noted that the total return performance was lower than the Lipper category averages and Comparison Group averages for the 1-year, 3-year, 5-year, and 10-year periods on a market price basis. The Board members noted the fund's closed-end structure and investment objective of seeking maximum current income, and placed emphasis on that factor in reviewing the fund's relative performance results. In addition, the reduction in the fund's monthly dividend payout during the prior year had impacted the fund's market price performance.

The Board members also discussed the fund's management fee and expense ratio compared with the management fees and expense ratios for the funds in the comparison group, noting that the fund's management fee (after the fee waiver and based on net assets solely attributable to common stock after leverage) was higher than the management fees for a majority of the comparison group funds and that the fund's expense ratio (after the fee waiver and based on net assets solely attributable to common stock after leverage) was higher than the comparison group average and Lipper category average. The Board also noted the undertaking in effect by the Manager over the past year to waive receipt of .10% of the fund's management fee, that the waiver had the effect of moving the fund's total expense ratio closer to the comparison group and Lipper category averages, and management's commitment to continue such waiver through October 31, 2006.

## INFORMATION ABOUT THE REVIEW AND APPROVAL OF THE

## FUND'S INVESTMENT ADVISORY AGREEMENT (Unaudited) (continued)

Representatives of the Manager reviewed with the Board members the fees paid to the Manager or its affiliates by investment companies managed by the Manager or its affiliates with similar investment objectives, policies, and strategies, and in the same Lipper category, as the fund (the "Similar Funds"). It was noted that there were no similarly managed separate accounts or wrap fee accounts managed by the Manager or its affiliates with similar investment objectives, policies, and strategies as the fund. The Board members noted that the fund's management fee was the same as for one Similar Fund, and was slightly higher than the management fee for the other Similar Fund. The Board members considered the relevance of the fee information provided for the Similar Funds to evaluate the appropriateness and reasonableness of the fund's management fee.

Analysis of Profitability and Economies of Scale. The Manager's representatives reviewed the dollar amount of expenses allocated and profit received by the Manager and the method used to determine such expenses and profit. The Board received and considered information prepared by an independent consulting firm regarding the Manager's approach to allocating costs to, and determining the profitability of, individual funds and the entire Dreyfus fund complex. The Manager's representatives stated that the methodology had also been reviewed by an independent registered public accounting firm which, like the consultant, found the methodology to be reasonable. The consulting firm also analyzed where any economies of scale might emerge in connection with the management of the fund. The Board members evaluated the analysis in light of the relevant circumstances for the fund. It was noted that economies of scale also could be appropriately realized through increased investment in fund management and administration resources. The Board members also considered potential benefits to the Manager from acting as investment adviser and noted that there were no soft dollar arrangements with respect to trading the fund's portfolio.

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It was noted that the Board members should consider the Manager's profitability with respect to the fund as part of their evaluation of whether the fee under the Management Agreement bears a reasonable relationship to the mix of services provided by the Manager, including the nature, extent, and quality of such services. It was noted that a discussion of economies of scale should be predicated on increasing assets and 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 the Manager in managing the fund's assets. The Board members also discussed the profitability percentage ranges determined by appropriate court cases to be reasonable given the services rendered to investment companies. It was noted that the profitability percentage for managing the fund was not unreasonable given the fund's overall performance and generally superior service levels provided. The Board also noted the Manager's waiver of receipt of a certain portion of the management fee over the past year and its effect on the profitability of the Manager.

At the conclusion of these discussions, each Board member expressed the opinion that he or she had been furnished with sufficient information to make an informed business decision with respect to continuation of the fund's Management Agreement. Based on their discussions and considerations as described above, the Board members made the following conclusions and determinations.

- The Board concluded that the nature, extent, and quality of the services provided by the Manager are adequate and appropriate.
- The Board was satisfied with the fund's overall performance.
- The Board concluded that the management fee paid to the Manager by the fund was reasonable in light of comparative performance and expense and advisory fee information, particularly considering the Manager's undertaking to waive receipt of 0.10% of the fund's management fee through October 31, 2006, costs of the services



## INFORMATION ABOUT THE REVIEW AND APPROVAL OF THE

## FUND'S INVESTMENT ADVISORY AGREEMENT (Unaudited) (continued)

- provided, and profits to be realized and benefits derived or to be derived by the Manager from its relationship with the fund.
- The Board determined that the economies of scale which may accrue to the Manager and its affiliates in connection with the management of the fund had been adequately considered by the Manager in connection with the investment advisory fee rate and administration fee rate charged to the fund, and that, to the extent in the future it were to be 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.

The Board members considered these conclusions and determinations, along with the information received on a routine and regular basis throughout the year, and, without any one factor being dispositive, the Board determined that re-approval of the fund's Management Agreement was in the best interests of the fund and its shareholders.

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## OFFICERS AND DIRECTORS

Dreyfus Strategic Municipals,  
200 Park Avenue  
New York, NY 10166

Inc.

**Directors**

Joseph S. DiMartino  
David W. Burke  
William Hodding Carter, III  
Ehud Houminer  
Richard C. Leone  
Hans C. Mautner  
Robin A. Melvin\*  
John E. Zuccotti\*

\* Auction Preferred Stock Directors

**Officers**

President  
Stephen E. Canter  
Executive Vice Presidents  
Stephen Byers  
A. Paul Disdier  
Vice President  
Mark N. Jacobs  
Vice President and Secretary  
Michael A. Rosenberg  
Vice President and Assistant Secretaries  
James Bitetto

Joni Lacks Charatan

Joseph

Janette

John B. Hammalian

Robert R. Mullery

Jeff Prusnofsky

Treasurer

James Windels

Assistant Treasurers

Erik D. Naviloff

Robert Robol

Robert Svagna

Gavin

Chief Compliance Officer

Joseph W. Connolly

M. Chioffi

E. Farragher

C. Reilly

**Portfolio Managers:**

Joseph

A. Paul

Douglas J. Gaylor

Joseph A. Irace

Colleen A. Meehan

W. Michael Petty

Scott Sprauer

Bill Vasiliou

James Welch

Monica S. Wieboldt

P. Darcy

Disdier

**Investment Adviser**

The Dreyfus Corporation

**Custodian**

Mellon Trust of

New England, N.A.

**Counsel**

Stroock & Stroock & Lavan LLP

**Transfer Agent,  
Dividend Disbursing Agent  
and Registrar**

The Bank of New York (Common Stock)

Deutsche Bank Trust Company America

(Auction Preferred Stock)

**Auction Agent**

Deutsche Bank Trust Company America

(Auction Preferred Stock)

**Stock Exchange Listing**

NYSE Symbol: LEO

**Initial SEC Effective Date**

9/23/87

*The Net Asset Value 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; New York Times, Business section under the heading [Closed-End Bond Funds] National Municipal Bond Funds] every Sunday.*

*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.*

The Fund **41**

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# For More Information

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**Dreyfus Strategic Municipals, Inc.**

200 Park Avenue  
New York, NY 10166

**Manager**

The Dreyfus Corporation  
200 Park Avenue  
New York, NY 10166

**Custodian**

Mellon Trust of  
New England, N.A.  
One Boston Place  
Boston, MA 02108

**Transfer Agent &  
Dividend Disbursing Agent  
and Registrar**

**(Common Stock)**

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

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.

## Edgar Filing: DREYFUS STRATEGIC MUNICIPALS INC - Form N-CSR

Information regarding how the fund voted proxies relating to portfolio securities for the 12-month period ended June 30, 2005, is available on the SEC's website at <http://www.sec.gov> and without charge, upon request, by calling 1-800-645-6561.

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- 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. Schedule of Investments.**  
Not applicable.
- Item 7. Disclosure of Proxy Voting Policies and Procedures for Closed-End Management Investment Companies.**  
Not applicable.
- Item 8. Portfolio Managers of Closed-End Management Investment Companies.**  
Not applicable.
- Item 9. Purchases of Equity Securities by Closed-End Management Investment Companies and Affiliated Purchasers.**  
Not applicable.
- Item 10. Submission of Matters to a Vote of Security Holders.**

The Registrant has a Nominating Committee (the "Committee"), which is responsible for selecting and nominating persons for election or appointment by the Registrant's Board as Board members. The Committee has adopted a Nominating Committee Charter (the "Charter"). Pursuant to the Charter, the Committee will consider recommendations for nominees from shareholders submitted to the Secretary of the Registrant, c/o The Dreyfus Corporation Legal Department, 200 Park Avenue, 8th Floor East, New York, New York 10166. A nomination submission must include information regarding the recommended nominee as specified in the Charter. This information includes all information relating to a recommended nominee that is required to be disclosed in solicitations or proxy statements for the election of Board members, as well as information sufficient to evaluate the factors to be considered by the Committee, including character and integrity, business and professional experience, and whether the person has the ability to apply sound and

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independent business judgment and would act in the interests of the Registrant and its shareholders. Nomination submissions are required to be accompanied by a written consent of the individual to stand for election if nominated by the Board and to serve if elected by the shareholders, and such additional information must be provided regarding the recommended nominee as reasonably requested by the Committee.

### **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

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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.

**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.

By: /s/ Stephen E. Canter  
Stephen E. Canter  
President

Date: May 26, 2006

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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/ Stephen E. Canter  
Stephen E. Canter  
Chief Executive Officer

Date: May 26, 2006

By: /s/ James Windels  
James Windels  
Chief Financial Officer

Date: May 26, 2006

**EXHIBIT INDEX**

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(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)

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