

Dreyfus BASIC Municipal Bond Portfolio

ANNUAL REPORT

August 31, 1999



 **Dreyfus**

The views expressed herein are current to the date of this report. These views and the composition of the portfolio are subject to change at any time based on market and other conditions.

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

Year 2000 Issues (Unaudited)

The portfolio could be adversely affected if the computer systems used by The Dreyfus Corporation and the portfolio's other service providers do not properly process and calculate date-related information from and after January 1, 2000. The Dreyfus Corporation is working to avoid Year 2000-related problems in its systems and to obtain assurances from other service providers that they are taking similar steps. In addition, issuers of securities in which the portfolio invests may be adversely affected by Year 2000-related problems. This could have an impact on the value of the portfolio's investments and its share price.

Contents

THE PORTFOLIO

- 2** Letter from the President
- 3** Discussion of Performance
- 6** Portfolio Performance
- 7** Statement of Investments
- 16** Statement of Assets and Liabilities
- 17** Statement of Operations
- 18** Statement of Changes in Net Assets
- 19** Financial Highlights
- 20** Notes to Financial Statements
- 24** Report of Independent Auditors
- 25** Important Tax Information

FOR MORE INFORMATION

Back Cover



LETTER FROM THE PRESIDENT

Dear Shareholder:

We are pleased to present this annual report for Dreyfus BASIC Municipal Bond Portfolio, covering the 12-month period from September 1, 1998 through August 31, 1999. Inside, you'll find valuable information about how the fund was managed during the reporting period, including a discussion with the fund's portfolio manager, Douglas Gaylor.

The past year has been mixed for municipal bond investors. Lower short-term interest rates adopted by the Federal Reserve Board in the fall of 1998 helped the U.S. economy withstand the effects of economic weakness in Japan, Asia and Latin America. As interest rates declined, the prices of many municipal bonds appreciated.

Soon after 1999 began, however, evidence emerged that the U.S. economy was growing strongly in an environment characterized by high levels of consumer spending. Concerns that inflationary pressures might re-emerge caused the Federal Reserve Board to raise short-term interest rates twice during the summer of 1999. Higher interest rates led to some erosion of municipal bond prices, especially toward the end of the reporting period.

In this environment, however, the yields of tax-exempt bonds have recently been quite attractive compared to the after-tax yields of taxable bonds of comparable maturity and credit quality. This is especially true for investors in the higher federal income tax brackets.

We appreciate your confidence over the past year, and we look forward to your continued participation in Dreyfus BASIC Municipal Bond Portfolio.

Sincerely,

Stephen E. Canter
President and Chief Investment Officer
The Dreyfus Corporation
September 14, 1999



DISCUSSION OF PERFORMANCE

Douglas Gaylor, Portfolio Manager

How did Dreyfus BASIC Municipal Bond Portfolio perform over the period?

The portfolio produced a -1.63% total return over the 12-month period ended August 31, 1999¹, which was the same as the total return of the Lipper Municipal Debt Funds category average.² The portfolio's record of relative performance was mainly affected by its security selection strategy, which emphasized deep-discount bonds. While deep-discount bonds often perform better than other types of municipal bonds when markets are rising, they may also tend to underperform in declining markets.

What is the portfolio's investment approach?

Our goal is to seek a high level of federally tax-exempt income from a diversified portfolio of municipal bonds. To achieve this objective, we conduct rigorous analysis of each individual bond's structure. Within the context of our bond structure analyses, we strive to maximize both income and total return, which is the combination of income earned and bond price changes over a period of time.

First, we try to allocate between one-quarter and one-half of the total portfolio to bonds that we believe have the potential to offer attractive total returns. We typically look for bonds that are selling at a discount to face value because they may be temporarily out-of-favor among investors. Our belief is that these bonds' prices will rise as they return to favor over time. This may be especially true for bonds that do not currently meet institutions' "de minimus" requirements — which govern institutions' ability to earn tax-exempt income — but that we expect to do so in the future.

Second, for the remainder of the portfolio, we look for bonds that potentially can provide consistently high current yields. We often find such opportunities in modest premium bonds. We not only look for

bonds that we expect to provide highly competitive yields, but we try to ensure that we select bonds that are most likely to obtain attractive prices if and when we decide to sell them in the secondary market.

What other factors influenced the portfolio's performance?

The portfolio was affected by changing interest rates over the past year. When the reporting period began on September 1, 1998, investors were concerned about the potentially adverse economic effects of the global currency and credit crisis, which had spread from Asia to Russia and was threatening Latin America. In response, the Federal Reserve Board reduced short-term interest rates last fall in an attempt to stimulate global economic growth.

The Federal Reserve's strategy apparently was effective. Economies in Japan and Southeast Asia appear to have halted their deterioration early in 1999, and the growth of the U.S. economy was stronger than most analysts expected. Municipal bond yields and prices stabilized in this environment. In the second quarter, however, strong economic growth raised concerns among fixed-income investors that inflationary pressures might re-emerge. The Federal Reserve Board increased short-term interest rates twice during the summer of 1999 in an attempt to forestall a reacceleration of inflation. This change in monetary policy — and the increased attractiveness of taxable bonds with higher yields — caused municipal bond prices to fall in July and August.

In addition, because of strong economic conditions throughout the country, municipalities have had less need to borrow. Yet, demand has remained high from individual and institutional investors seeking to reduce their income tax liabilities. This imbalance between supply and demand constrained the rise of municipal bond yields relative to the yields of taxable bonds. As a result, the municipal bond market generally outperformed the U.S. Treasury securities market over the first eight months of 1999.

What is the portfolio's current strategy?

We have continued to search for bonds with attractive structures in the national municipal bond market. We have found such values, in our opinion, in “de minimus” bonds in the 15- to 20-year maturity range that are selling at a discount to their face values and that cannot be redeemed by their issuers any time soon. These bonds typically sell at lower prices because they may be temporarily out-of-favor among institutional investors. While discount bonds have the potential to appreciate faster than other municipal bonds in rising markets, their prices also tend to fall faster in declining markets, as we experienced toward the end of the reporting period.

In addition, we have continued to focus on high-quality issuers. Although the differences in yields between the highest quality bonds and lower quality bonds have widened from very narrow levels recently, we currently see little reason to assume the added credit risk lower rated bonds entail.

September 14, 1999

¹ Total return includes reinvestment of dividends and any capital gains paid. Past performance is no guarantee of future results. Share price, yield and investment return fluctuate such that upon redemption fund shares may be worth more or less than their original cost. Income may be subject to state and local taxes, and some income may be subject to the Federal Alternative Minimum Tax (AMT) for certain investors. Capital gains, if any, are fully taxable.

² Source: Lipper Analytical Services, Inc.