

DREYFUS MUNICIPAL INCOME INC
Form N-CSR
November 30, 2005
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 811-05652

DREYFUS MUNICIPAL INCOME, 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: 9/30
Date of reporting period: 9/30/05

FORM N-CSR

Item 1. Reports to Stockholders.

Dreyfus Municipal Income, Inc.

Protecting Your Privacy
Our Pledge to You

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

law.

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

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

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

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

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

Thank you for this opportunity to serve you.

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

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

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The Fund

**Dreyfus
Municipal Income, Inc.**

LETTER FROM THE CHAIRMAN

Dear Shareholder:

This annual report for Dreyfus Municipal Income, Inc. covers the 12-month period from October 1, 2004, through September 30, 2005. 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, Joseph P. Darcy.

Although yields of longer-term municipal bonds recently have begun to creep upward, they remained relatively low over the past year even as short-term interest rates rose steadily. Moderate economic growth, low inflation expectations among U.S. investors and robust investor demand appear to have supported the tax-exempt bond market, offsetting concerns related to greater new issuance volume, soaring energy prices and the Federal Reserve Board's gradual move toward a less accommodative monetary policy.

Recent events — including sharply higher gasoline and energy prices, and Hurricane Katrina — have added a degree of uncertainty to the economic outlook, which could buoy investor sentiment in the bond market. Conversely, high energy and commodity prices could lead to greater inflation concerns, which may discourage some fixed-income investors. As always, we encourage you to discuss these and other matters with your financial advisor.

Thank you for your continued confidence and support.

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DISCUSSION OF FUND PERFORMANCE

Joseph P. Darcy, Senior Portfolio Manager

How did Dreyfus Municipal Income, Inc. perform relative to its benchmark?

For the 12-month period ended September 30, 2005, the fund achieved a total return of 8.71% .¹ During the same period, the fund provided income dividends of \$0.616 per share, which is equal to a distribution rate of 6.59% .²

We attribute the fund's performance to the resiliency of longer-term bond prices in a rising short-term interest-rate environment, which was primarily the result of low inflation expectations and robust investor demand. While the fund also benefited from relatively strong income from its seasoned, core holdings, the fund's

Board declared a dividend reduction in January 2005, due to the higher cost of funding its preferred shares and the lower available reinvestment yields from newly purchased securities.

What is the fund's investment approach?

The fund seeks to maximize current income exempt from federal income tax to the extent consistent with the preservation of capital from a portfolio that, under normal market conditions, invests at least 80% of the value of its net assets in municipal obligations. Under normal market conditions, the fund invests in municipal obligations which, at the time of purchase, are rated investment-grade or the unrated equivalent as determined by Dreyfus in the case of bonds, and rated 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.

We have constructed a portfolio by looking for income opportunities through analysis of each bond's structure, including paying close attention to a bond's yield, maturity and early redemption features.

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DISCUSSION OF FUND PERFORMANCE (continued)

Over time, many of the fund's relatively higher-yielding bonds mature or are redeemed by their issuers, and we generally attempt to replace those bonds with investments consistent with the fund's investment policies, albeit with yields that reflect the then-current interest-rate environment. When we believe that an opportunity presents itself, we seek to upgrade the portfolio's investments with bonds that, in our opinion, have better structural or income characteristics than existing holdings. When such opportunities arise, we usually will look to sell bonds that are close to redemption or maturity.

What other factors influenced the fund's performance?

Like most other income-oriented investments, the fund was influenced during the reporting period by higher short-term interest rates and low inflation in a moderately growing U.S. economy. As part of its ongoing credit tightening campaign, the Federal Reserve Board (the "Fed") increased the overnight federal funds rate eight times during the reporting period, driving it from 1.75% to 3.75%. These moves were designed to move U.S. monetary policy away from its previously accommodative stance and toward a more neutral posture that neither stimulates nor restricts economic growth.

However, contrary to historical norms, yields of longer-term bonds failed to rise along with interest rates, primarily due to low inflation expectations among domestic investors and robust demand for U.S. fixed-income securities from overseas investors, including central banks in Asia. As a result, prices of longer-term municipal bonds held up remarkably well, and yield differences between shorter- and longer-term securities narrowed. Because the fund focuses on bonds at the longer end of the maturity spectrum, this development helped support its net asset value.

In addition, the fund's holdings benefited to a degree from investors' apparent preference during the reporting period for lower-quality municipal securities. Investor demand for yield-oriented securities proved to be particularly strong, and bond prices were further supported by the participation of non-traditional investors, such as insur-

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ance companies and hedge funds, seeking attractive after-tax yields relative to comparable taxable securities. However, the fund is limited by prospectus to securities in the investment-grade range, so it did not participate fully in the strength of lower-rated bonds.

The fund continued to receive attractive levels of current income from its core holdings of seasoned municipal bonds, most of which were purchased during a market environment offering higher yields than are available today. As expected, some of the fund's higher-yielding bonds have matured or were redeemed early by their issuers, and we were unable to reinvest in bonds with comparable income characteristics. In addition, the fund's

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leverage strategy has been affected by higher short-term interest rates, which resulted in higher borrowing costs. To adjust for these changes, the fund's Board of Directors reduced the fund's dividend in January 2005.

What is the fund's current strategy?

We have continued to focus on income-oriented securities at the long end of the market's maturity range. When core holdings are redeemed by their issuers, we have attempted to reinvest in investment-grade bonds with what we believe have relatively attractive income characteristics. During the reporting period, we found a number of income-oriented opportunities among bonds backed by corporations and the states' settlement of litigation with the nation's tobacco companies.

October 17, 2005

- ¹ *Total return includes reinvestment of dividends and any capital gains paid, based upon net asset value per share. Past performance is no guarantee of future results. Market price per share, net asset value per share and investment return fluctuate. Income may be subject to state and local taxes, and some income may be subject to the federal alternative minimum tax (AMT) for certain investors. Capital gains, if any, are fully taxable.*
- ² *Distribution rate per share is based upon dividends per share paid from net investment income during the period, divided by the market price per share at the end of the period.*

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SELECTED INFORMATION

September 30, 2005 (Unaudited)

Market Price per share September 30, 2005	\$9.35
Shares Outstanding September 30, 2005	20,589,320
American Stock Exchange Ticker Symbol	DMF

MARKET PRICE (AMERICAN STOCK EXCHANGE)

Fiscal Year Ended September 30, 2005

	Quarter Ended December 31, 2004	Quarter Ended March 31, 2005	Quarter Ended June 30, 2005	Quarter Ended September 30, 2005
High	\$10.35	\$10.20	\$9.29	\$9.46
Low	9.87	8.77	8.89	9.10
Close	10.00	8.93	9.27	9.35

PERCENTAGE GAIN (LOSS) based on change in Market Price*

October 24, 1988 (commencement of operations) through September 30, 2005	200.44%
October 1, 1995 through September 30, 2005	92.84
October 1, 2000 through September 30, 2005	66.21
October 1, 2004 through September 30, 2005	(2.58)
January 1, 2005 through September 30, 2005	(2.01)
April 1, 2005 through September 30, 2005	7.94
July 1, 2005 through September 30, 2005	2.40

NET ASSET VALUE PER SHARE

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October 24, 1988 (commencement of operations)	\$ 9.26
September 30, 2004	9.51
December 31, 2004	9.61
March 31, 2005	9.52
June 30, 2005	9.78
September 30, 2005	9.68

PERCENTAGE GAIN (LOSS) based on change in Net Asset Value*

October 24, 1988 (commencement of operations) through September 30, 2005	235.90%
October 1, 1995 through September 30, 2005	92.35
October 1, 2000 through September 30, 2005	53.66
October 1, 2004 through September 30, 2005	8.71
January 1, 2005 through September 30, 2005	5.57
April 1, 2005 through September 30, 2005	4.83
July 1, 2005 through September 30, 2005	0.48

* *With dividends reinvested.*

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STATEMENT OF INVESTMENTS

September 30, 2005

	Principal Amount (\$)	Value (\$)
Long-Term Municipal Investments 147.6%		
Alabama 8.8%		
Jefferson County:		
Limited Obligation School Warrants		
5.50%, 1/1/2021	4,000,000	4,327,360
Sewer Revenue, Capital Improvement		
5.75%, 2/1/2009 (Insured; FGIC)	7,500,000 ^a	8,178,150
The Board of Trustees of the University of Alabama, HR (University of Alabama at Birmingham)		
5.875%, 9/1/2031 (Insured; MBIA)	4,620,000	5,113,185
Alaska 3.6%		
Alaska Housing Finance Corp., General Mortgage Revenue		
6.05%, 6/1/2039 (Insured; MBIA)	6,845,000	7,099,634
Arkansas 1.5%		
Independence County, PCR (Entergy Arkansas Inc. Project) 5%, 1/1/2021	3,000,000	3,058,200
California 11.2%		
ABAG Financial Authority For Nonprofit Corps., Insured Revenue, COP (Odd Fellows Home of California)		
6%, 8/15/2024	5,000,000	5,238,400
California Department of Veteran Affairs,		

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Home Purchase Revenue 5.20%, 12/1/2028	5,000,000	5,002,700
California Health Facilities Financing Authority, Revenue (Sutter Health) 6.25%, 8/15/2035	2,500,000	2,817,675
California Statewide Communities Development Authority, COP (Catholic Healthcare West) 6.50%, 7/1/2020	5,000,000	5,591,000
Golden State Tobacco Securitization Corp., Revenue (Tobacco Settlement Asset-Backed Bonds) 7.80%, 6/1/2042	3,000,000	3,751,950
Colorado 4.4%		
City and County of Denver, Airport Revenue (Special Facilities-United Airlines Inc. Project) 6.875%, 10/1/2032	2,480,000 ^b	2,271,804
Colorado Springs, HR: 6.375%, 12/15/2010	2,835,000 ^a	3,248,570
6.375%, 12/15/2030	2,890,000	3,162,498

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STATEMENT OF INVESTMENTS (continued)

Long-Term Municipal Investments (continued)	Principal Amount (\$)	Value (\$)
District of Columbia 2.3%		
District of Columbia, Revenue (Catholic University America Project) 5.625%, 10/1/2029 (Insured; AMBAC)	2,080,000	2,256,176
District of Columbia Housing Finance Agency, SFMR 7.45%, 12/1/2030 (Collateralized: FHA, FNMA, GNMA and GIC; Trinity Funding)	2,185,000	2,285,576
Florida 1.4%		
Orange County Health Facilities Authority, Revenue (Orlando Regional Healthcare System) 6%, 10/1/2026	1,500,000	1,585,380
South Lake County Hospital District, Revenue (South Lake Hospital Inc.) 5.80%, 10/1/2034	1,095,000	1,144,133
Georgia 0.5%		
Development Authority of the City of Milledgeville and Baldwin County, Revenue (Georgia College and State University Foundation Property III, LLC Student Housing System Project) 5.25%, 9/1/2019	1,000,000	1,043,910
Illinois 10.5%		
Chicago: 6.125%, 7/1/2010 (Insured; FGIC)	3,685,000	4,171,641 ^a

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6.125%, 7/1/2010 (Insured; FGIC) Illinois Development Finance Authority, Revenue (Community Rehabilitation Providers Facilities Acquisition Program) 8.75%, 3/1/2010 Illinois Health Facilities Authority, Revenue: (Advocate Health Care Network)	315,000	a	356,599
6.125%, 11/15/2010 (OSF Healthcare System)	5,800,000	a	6,544,604
6.25%, 11/15/2029 (Swedish American Hospital)	7,000,000		7,474,810
6.875%, 5/15/2010	2,000,000	a	2,286,440
Indiana 1.4%			
Franklin Township School Building Corp. (Marion County) First Mortgage 6.125%, 7/15/2010	2,500,000	a	2,846,425

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Long-Term Municipal Investments (continued)	Principal Amount (\$)		Value (\$)
Kansas 1.3%			
Unified Government of Wyandotte County/Kansas City, Tax-Exempt Sales Tax Special Obligation Revenue (Redevelopment Project Area B) 5%, 12/1/2020	2,500,000		2,569,075
Maryland 4.9%			
Maryland Economic Development Corp., Student Housing Revenue (University of Maryland, College Park Project) 5.625%, 6/1/2035	2,000,000		2,091,620
Maryland Health and Higher Educational Facilities Authority, Revenue (The John Hopkins University Issue) 6%, 7/1/2009	7,000,000 ^a		7,769,370
Massachusetts 6.7%			
Massachusetts Bay Transportation Authority, Assessment 5%, 7/1/2034	5,000,000		5,221,200
Massachusetts Health and Educational Facilities Authority, Healthcare System Revenue (Covenant Health) 6%, 7/1/2031	2,500,000		2,671,075
Massachusetts Industrial Finance Agency, Revenue (Water Treatment-American Hingham) 6.95%, 12/1/2035	5,235,000		5,458,639
Michigan 7.5%			
Hancock Hospital Finance Authority,			

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Mortgage Revenue (Portgage Health) 5.45%, 8/1/2047 (Insured; MBIA)	2,200,000	2,309,890
Michigan Hospital Finance Authority, HR (Genesys Health System Obligated Group) 8.125%, 10/1/2005	7,670,000 ^a	7,824,474
Michigan Strategic Fund, SWDR (Genesee Power Station Project) 7.50%, 1/1/2021	4,800,000	4,798,656

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STATEMENT OF INVESTMENTS (continued)

Long-Term Municipal Investments (continued)	Principal Amount (\$)	Value (\$)
Minnesota 1.4%		
Minnesota Agricultural and Economic Development Board, Health Care System Revenue (Fairview Health Services):		
6.375%, 11/15/2010	2,420,000 ^a	2,774,409
6.375%, 11/15/2029	80,000	87,104
Mississippi 3.1%		
Mississippi Business Finance Corp., PCR (System Energy Resource Inc. Project)		
5.875%, 4/1/2022	6,000,000	6,117,600
Missouri 4.1%		
Health and Educational Facilities Authority of the State of Missouri, Health Facilities Revenue: (BJC Health System)		
5.25%, 5/15/2032 (Saint Anthony's Medical Center)	2,500,000	2,627,325
6.25%, 12/1/2030	2,500,000	2,680,625
Missouri Development Finance Board, Infrastructure Facilities Revenue (Branson Landing Project)		
5%, 6/1/2035	2,500,000	2,522,750
Missouri Housing Development Commission, Mortgage Revenue (Single Family Homeownership Loan)		
6.30%, 9/1/2025	245,000	250,679
Nevada 2.2%		
Clark County, IDR (Southwest Gas Corp.)		
6.10%, 12/1/2038 (Insured; AMBAC)	4,000,000	4,438,640
New Jersey .8%		
New Jersey Economic Development Authority, Cigarette Tax Revenue		
5.50%, 6/15/2031	1,610,000	1,677,105
New Mexico 2.7%		

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Farmington, PCR (Public Service Co. San Juan)		
6.30%, 12/1/2016	3,000,000	3,143,100
New Mexico Mortgage Finance Authority, Single Family Mortgage Program		
6.85%, 9/1/2031 (Collateralized: FHLMC and GNMA)	2,100,000	2,186,121

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Long-Term Municipal Investments (continued)	Principal Amount (\$)	Value (\$)
New York 0.8%		
Long Island Power Authority, Electric System Revenue		
5%, 9/1/2027	1,500,000	1,556,025
North Carolina 5.9%		
Gaston County Industrial Facilities and Pollution Control Financing Authority, Exempt Facilities Revenue (National Gypsum Co. Project)		
5.75%, 8/1/2035	1,500,000	1,565,895
North Carolina Capital Facilities Finance Agency, Revenue (Duke University Project)		
5.25%, 7/1/2042	5,000,000	5,279,950
North Carolina Eastern Municipal Power Agency, Power System Revenue		
5.125%, 1/1/2026	3,000,000	3,059,820
North Carolina Housing Finance Agency (Home Ownership)		
6.25%, 1/1/2029	1,870,000	1,950,522
Ohio 4.8%		
Cuyahoga County, Hospital Improvement Revenue (The Metrohealth System Project)		
6.125%, 2/15/2009	5,000,000 ^a	5,507,350
Ohio Housing Finance Agency, Residential Mortgage Revenue		
5.75%, 9/1/2030 (Collateralized; GNMA)	260,000	262,335
Rickenbacker Port Authority, Capital Funding Revenue (OASBO Expanded Asset Pooled)		
5.375%, 1/1/2032	3,590,000	3,870,666
Oklahoma 1.4%		
Oklahoma Development Finance Authority, Revenue (Saint John Health System)		
6%, 2/15/2029	2,500,000	2,699,100
Pennsylvania 7.7%		
Delaware County Industrial Development Authority, Water Facilities Revenue (Aqua Pennsylvania, Inc. Project)		

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5%, 11/1/2038 (Insured; FGIC) 3,375,000 3,475,946

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STATEMENT OF INVESTMENTS *(continued)*

Long-Term Municipal Investments (continued)	Principal Amount (\$)	Value (\$)
Pennsylvania (continued)		
Pennsylvania Economic Development Financing Authority, RRR (Northampton Generating Project) 6.60%, 1/1/2019	3,500,000	3,532,655
Sayre Health Care Facilities Authority, Revenue (Guthrie Health) 5.875%, 12/1/2031	7,750,000	8,320,555
South Carolina 9.4%		
Lancaster Educational Assistance Program, Inc., Installment Purchase Revenue (The School District of Lancaster County, South Carolina, Project) 5%, 12/1/2026	5,000,000	5,043,600
Medical University, Hospital Facilities Revenue 6%, 7/1/2009	2,500,000 ^a	2,764,450
Piedmont Municipal Power Agency, Electric Revenue 5.25%, 1/1/2021	3,500,000	3,542,910
Tobacco Settlement Revenue Management Authority, Tobacco Settlement Asset-Backed Bonds: 6.375%, 5/15/2028	2,900,000	3,147,080
6.375%, 5/15/2030	3,750,000	4,280,813
Tennessee 1.5%		
The Health, Educational and Housing Facility Board of the City of Chattanooga, Revenue (CDFI Phase I, LLC Project) 5.125%, 10/1/2035	3,000,000	2,963,760
Texas 13.3%		
Cities of Dallas and Fort Worth, Dallas/Fort Worth International Airport, Joint Revenue Improvement 5%, 11/1/2035 (Insured; FSA)	2,500,000	2,524,350
Gregg County Health Facilities Development Corp., HR (Good Shepherd Medical Center Project) 6.375%, 10/1/2025 (Insured; Radian)	2,500,000	2,792,725
Harris County Health Facilities Development Corp., HR (Memorial Hermann Healthcare) 6.375%, 6/1/2029	3,565,000	3,896,509

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Long-Term Municipal Investments (continued)	Principal Amount (\$)	Value (\$)
Texas (continued)		
Industrial Development Corp. of Port of Corpus Christi, Revenue (Valero Refining and Marketing Co. Project) 5.40%, 4/1/2018	2,350,000	2,443,695
Port of Corpus Christi Authority of Nueces County, Revenue (Union Pacific Corp. Project) 5.65%, 12/1/2022	4,500,000	4,758,660
Sabine River Authority of Texas, PCR (TXU Energy Co. LLC Project) 6.15%, 8/1/2022	2,500,000	2,746,825
Texas, Veterans Housing Assistance Program 6.10%, 6/1/2031 (Collateralized; FHA)	7,000,000	7,449,120
Utah 1.6%		
Carbon County, SWDR (Sunnyside Cogeneration) 7.10%, 8/15/2023	2,765,000	2,786,180
Utah Housing Finance Agency, Single Family Mortgage 6%, 1/1/2031 (Collateralized; FHA)	320,000	321,862
Vermont 1.3%		
Vermont Educational and Health Buildings Financing Agency, Revenue (Saint Michael's College Project) 6%, 10/1/2028	1,500,000	1,684,290
Vermont Housing Finance Agency, Single Family Housing 6.40%, 11/1/2030 (Insured; FSA)	800,000	802,304
Washington 3.8%		
Public Utility District Number 1 of Pend Orielle County, Electric Revenue 6.375%, 1/1/2015	2,000,000	2,048,380
Washington Higher Education Facilities Authority, Revenue (Whitman College Project) 5.875%, 10/1/2009	5,000,000 ^a	5,495,800
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STATEMENT OF INVESTMENTS (continued)

Long-Term Municipal Investments (continued)	Principal Amount (\$)	Value (\$)
West Virginia 3.9%		
Braxton County, SWDR (Weyerhaeuser Co. Project)		

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5.80%, 6/1/2027	7,450,000		7,739,134
Wisconsin 3.8%			
Badger Tobacco Asset Securitization Corp., Tobacco Settlement Asset-Backed Bonds			
7%, 6/1/2028	2,500,000		2,851,050
Wisconsin Health and Educational Facilities Authority, Revenue (Aurora Health Care, Inc.)			
5.60%, 2/15/2029	4,575,000		4,699,623
Wyoming 1.0%			
Sweetwater County, SWDR (FMC Corp. Project)			
7%, 6/1/2024	2,000,000		2,018,840
U.S. Related 7.1%			
Puerto Rico Highway and Transportation Authority, Transportation Revenue:			
7.099%, 7/1/2038 (Insured; MBIA)	4,000,000	c,d	4,360,160
7.099%, 7/1/2038 (Insured; MBIA)	5,000,000	c,d	5,450,200
Puerto Rico Infrastructure Financing Authority, Special Tax Revenue, Residual Certificates			
7.055%, 7/1/2015 (Insured; AMBAC)	4,000,000	c,d	4,421,360
Total Long-Term Municipal Investments (cost \$274,346,010)			294,266,490
<hr/>			
Short-Term Municipal Investment 2.0%			
<hr/>			
Louisiana;			
New Orleans, Sewerage Service, BAN			
3%, 7/26/2006 (cost \$3,954,000)	4,000,000		3,951,080
<hr/>			
Total Investments (cost \$278,300,010)	149.6%		298,217,570
Cash and Receivables (Net)	.6%		1,170,344
Preferred Stock, at redemption value	(50.2%)		(100,000,000)
Net Assets applicable to Common Shareholders	100.0%		199,387,914

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Summary of Abbreviations

ACA	American Capital Access	GNMA	Government National Mortgage Association
AGIC	Asset Guaranty Insurance Company	GO	General Obligation
AMBAC	American Municipal Bond Assurance Corporation	HR	Hospital Revenue
ARRN	Adjustable Rate Receipt Notes	IDB	Industrial Development Board
BAN	Bond Anticipation Notes	IDC	Industrial Development Corporation
BIGI	Bond Investors Guaranty Insurance	IDR	Industrial Development Revenue
BPA	Bond Purchase Agreement	LOC	Letter of Credit

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CGIC	Capital Guaranty Insurance Company	LOR	Limited Obligation Revenue
CIC	Continental Insurance Company	LR	Lease Revenue
CIFG	CDC Ixis Financial Guaranty Corporation	MBIA	Municipal Bond Investors Assurance Insurance Corporation
CMAC	Capital Market Assurance Corporation	MFHR	Multi-Family Housing Revenue
COP	Certificate of Participation	MFMR	Multi-Family Mortgage Revenue
CP	Commercial Paper	PCR	Pollution Control Revenue
EDR	Economic Development Revenue	RAC	Revenue Anticipation Certificates
EIR	Environmental Improvement Revenue	RAN	Revenue Anticipation Notes
FGIC	Financial Guaranty Insurance Company	RAW	Revenue Anticipation Warrants
FHA	Federal Housing Administration	RRR	Resources Recovery Revenue
FHLB	Federal Home Loan Bank	SAAN	State Aid Anticipation Notes
FHLMC	Federal Home Loan Mortgage Corporation	SBPA	Standby Bond Purchase Agreement
FNMA	Federal National Mortgage Association	SFHR	Single Family Housing Revenue
FSA	Financial Security Assurance	SFMR	Single Family Mortgage Revenue
GAN	Grant Anticipation Notes	SONYMA	State of New York Mortgage Agency
GIC	Guaranteed Investment Contract	SWDR	Solid Waste Disposal Revenue
		TAN	Tax Anticipation Notes
		TAW	Tax Anticipation Warrants
		TRAN	Tax and Revenue Anticipation Notes
		XLCA	XL Capital Assurance

The Fund **15**

STATEMENT OF INVESTMENTS *(continued)*
Summary of Combined Ratings (Unaudited)

Fitch or	Moody's	or Standard & Poor's	Value (%) [□]
AAA	Aaa	AAA	24.5
AA	Aa	AA	18.0
A	A	A	27.6
BBB	Baa	BBB	23.5
BB	Ba	BB	1.2
F1	MIG1/P1	SP1/A1	1.3
Not Rated ^e	Not Rated ^e	Not Rated ^e	3.9
			100.0

[□] Based on total investments.
These securities are prerefunded; the date shown represents the prerefunded date. Bonds which are

^a 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.

^b Non-income producing security; interest payments in default.
Securities exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be

^c resold in transactions exempt from registration, normally to qualified institutional buyers. At September 30, 2005, these

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securities amounted to \$14,231,720 or 7.1% of net assets applicable to common shareholders.

d Inverse floater security[]the interest rate is subject to change periodically.

e Securities which, while not rated by Fitch, Moody[]s and Standard & Poor[]s, have been determined by the Manager to

be of comparable quality to those rated securities in which the fund may invest.

f At September 30, 2005, the fund had \$64,987,326 or 32.6% of net assets applicable to common shareholders invested in securities whose payment of principal and interest is dependent upon revenues generated from health

care projects.

See notes to financial statements.

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STATEMENT OF ASSETS AND LIABILITIES

September 30, 2005

	Cost	Value
Assets (\$):		
Investments in securities[]See Statement of Investments	278,300,010	298,217,570
Cash		330,664
Interest receivable		5,112,318
Prepaid expenses		10,464
		303,671,016
Liabilities (\$):		
Due to The Dreyfus Corporation and affiliates[]Note 3(b)		175,451
Payable for investment securities purchased		3,975,667
Dividends payable to Preferred Shareholders		13,197
Commissions Payable		13,394
Accrued expenses		105,393
		4,283,102
Auction Preferred Stock , Series A and B, par value \$.001 per share (4,000 shares issued and outstanding at \$25,000 per share liquidation preference)[]Note 1		100,000,000
Net Assets applicable to Common Shareholders (\$)		199,387,914
Composition of Net Assets (\$):		
Common Stock, par value \$.001 per share (20,589,320 shares issued and outstanding)		20,589
Paid-in capital		185,575,995
Accumulated undistributed investment income[]net		169,528
Accumulated net realized gain (loss) on investments		(6,295,758)
Accumulated net unrealized appreciation (depreciation) on investments		19,917,560

Net Assets applicable to Common Shareholders (\$)	199,387,914
<hr/>	
Shares Outstanding	
(110 million shares authorized)	20,589,320
Net Asset Value , per share of Common Stock (\$)	9.68

See notes to financial statements.

The Fund **17**

STATEMENT OF OPERATIONS

Year Ended September 30, 2005

Investment Income (\$):

Interest Income	16,550,059
Expenses:	
Management fee—Note 3(a)	2,087,941
Commission fees—Note 1	268,688
Professional fees	85,380
Shareholders' reports	50,987
Shareholder servicing costs—Note 3(b)	43,188
Custodian fees—Note 3(b)	22,138
Registration fees	16,980
Directors' fees and expenses—Note 3(c)	15,070
Miscellaneous	28,792
Total Expenses	2,619,164
Investment Income—Net	13,930,895

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

Net realized gain (loss) on investments	238,665
Net unrealized appreciation (depreciation) on investments	4,113,220
Net Realized and Unrealized Gain (Loss) on Investments	4,351,885
Dividends on Preferred Stock	(1,996,049)
Net Increase in Net Assets Resulting from Operations	16,286,731

See notes to financial statements.

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STATEMENT OF CHANGES IN NET ASSETS

	Year Ended September 30,	
	2005	2004
Operations (\$):		
Investment income—net	13,930,895	14,144,942
Net realized gain (loss) on investments	238,665	323,905
Net unrealized appreciation		

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(depreciation) on investments	4,113,220	1,509,686
Dividends on Preferred Stock	(1,996,049)	(1,294,632)
Net Increase (Decrease) in Net Assets		
Resulting from Operations	16,286,731	14,683,901
<hr/>		
Dividends to Common Shareholders from (\$):		
Investment income	(12,677,010)	(14,752,514)
<hr/>		
Capital Stock Transactions (\$):		
Dividends reinvested	383,217	1,073,251
Total Increase (Decrease) in Net Assets	3,992,938	1,004,638
<hr/>		
Net Assets (\$):		
Beginning of Period	195,394,976	194,390,338
End of Period	199,387,914	195,394,976
Undistributed investment income	169,528	922,814
<hr/>		
Capital Share Transactions (Shares):		
Increase in Shares Outstanding as a		
Result of Dividends Reinvested	40,170	112,853

See notes to financial statements.

The Fund **19**

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.

	Year Ended September 30,				
	2005	2004	2003	2002 ^a	2001
<hr/>					
Per Share Data (\$):					
Net asset value, beginning of period	9.51	9.51	9.78	9.66	8.82
Investment Operations:					
Investment income	.68 ^b	.69 ^b	.72 ^b	.76 ^b	.74
Net realized and unrealized gain (loss) on investments	.21	.09	(.24)	.00 ^c	.79
Dividends on Preferred Stock from investment income	(.10)	(.06)	(.07)	(.08)	(.16)
Total from Investment Operations	.79	.72	.41	.68	1.37
Distributions to Common Shareholders:					
Dividends from investment income	(.62)	(.72)	(.68)	(.56)	(.53)
Capital Stock transactions, net of effect of Preferred Stock Offering	□	□	□	□	.00 ^c

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Net asset value, end of period	9.68	9.51	9.51	9.78	9.66
Market Value, end of period	9.35	10.25	9.69	9.60	8.71
Total Return (%) ^d	(2.58)	14.08	8.48	17.28	17.55

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	Year Ended September 30,				
	2005	2004	2003	2002 ^a	2001
Ratios/Supplemental Data (%):					
Ratio of total expenses to average net assets applicable to Common Stock ^e	1.32	1.31	1.33	1.33	1.39
Ratio of net investment income to average net assets applicable to Common Stock ^e	7.03	7.29	7.60	7.93	7.97
Ratio of total expenses to total average net assets ^e	.88	.87	.88	.87	.91
Ratio of net investment income to total average net assets ^e	4.67	4.81	5.02	5.23	5.21
Portfolio Turnover Rate	12.62	6.72	9.88	5.32	15.27
Asset coverage of Preferred Stock, end of period	299	295	294	299	297
Net Assets, net of Preferred Stock, end of period (\$ x 1,000)	199,388	195,395	194,390	199,361	196,952
Preferred Stock outstanding, end of period (\$ x 1,000)	100,000	100,000	100,000	100,000	100,000

^a

As required, effective October 1, 2001, the fund has adopted the provisions of the AICPA Audit and Accounting Guide for Investment Companies and began 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