

DREYFUS MUNICIPAL INCOME INC  
Form N-CSR  
May 27, 2008  
**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)

Michael A. Rosenberg, Esq.  
200 Park Avenue  
New York, New York 10166  
(Name and address of agent for service)

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

Date of fiscal year end: 9/30

Date of reporting period: 3/31/08

1

---

**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.

1

**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

---

# Contents

	THE FUND
<b>2</b>	A Letter from the CEO
<b>3</b>	Discussion of Fund Performance
<b>6</b>	Statement of Investments
<b>18</b>	Statement of Assets and Liabilities
<b>19</b>	Statement of Operations
<b>20</b>	Statement of Changes in Net Assets
<b>21</b>	Financial Highlights
<b>23</b>	Notes to Financial Statements
<b>33</b>	Officers and Directors
	<b>FOR MORE INFORMATION</b>

---

Back Cover

---

# The Fund

**Dreyfus**

**Municipal Income, Inc.**

**A LETTER FROM THE CEO**

Dear Shareholder:

We are pleased to present this semiannual report for Dreyfus Municipal Income, Inc., covering the six-month period from October 1, 2007, through March 31, 2008.

The reporting period proved to be one of the more challenging periods for municipal bond investors in recent memory. The U.S. economy continues to sputter under the weight of a weakening housing market, and a credit crisis that originated in the U.S. sub-prime mortgage sector continues to disrupt other areas of the financial markets. The municipal bond markets have been further pressured by major bond insurers, which presently still face potential rating downgrades, making their ability to continue to do business unlikely. Particularly hard-hit were lower-rated municipal bonds and those carrying third-party insurance from such independent bond insurers.

The Federal Reserve Board and the U.S. government have adopted stimulative monetary and fiscal policies in an effort to boost market liquidity and the economy. While it is too early to tell how effective their actions will be, the time is right to position your portfolio for the investment challenges and opportunities that may arise. As always, we encourage you to stay in close contact with your financial advisor, who can help you maintain a disciplined approach and a long-term perspective, which historically have been key to investment success over the long run.

For information about how the fund performed during the reporting period, as well as 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.

2

---

**DISCUSSION OF FUND PERFORMANCE**

*For the period of October 1, 2007, through March 31, 2008, as provided by W. Michael Petty, Senior Portfolio Manager*

**Fund and Market Performance Overview**

For the six-month period ended March 31, 2008, Dreyfus Municipal Income achieved a total return of  $\square$ 0.96% (on a net asset value basis).<sup>1</sup> During the same period, the fund provided income dividends of \$0.246 per share, which is equal to a distribution rate of 5.80%.<sup>2</sup>

Municipal bonds suffered along with many other asset classes as a fixed-income credit crisis and U.S. economic slowdown intensified during the reporting period. While the fund's performance was affected by these challenging market conditions, a defensive investment posture, including a relatively short average duration, helped protect it from the full brunt of market volatility.

**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. 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,

The Fund **3**

---

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

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.

#### **Municipal Bonds Suffered in the Credit Crisis**

The reporting period began amid a credit crisis originating in the sub-prime mortgage market, where an unexpectedly high number of homeowners defaulted on their loans. This development sent shock-waves throughout the financial markets as investors reassessed their attitudes toward risk. The sub-prime meltdown produced massive losses among bond insurers. Because many of these companies had written insurance on both mortgage-backed securities and municipal bonds, municipal bond investors responded negatively when insurers came under financial pressure.

The effects of the credit crisis were exacerbated by slower economic growth as declining housing prices, soaring energy costs and a softer job market put pressure on consumer spending. Aggressive reductions of short-term interest rates by the Federal Reserve Board and a fiscal stimulus package from Congress have not yet forestalled further economic deterioration. The economic slowdown also led to concerns that states and municipalities may soon face greater fiscal pressures.

#### **Defensive Positioning Supported Fund Performance**

Not surprisingly, lower-rated municipal bonds were among the harder-hit segments of the market. Because the fund focuses on securities with investment-grade credit ratings at the time of purchase, it held little exposure to the weaker-performing parts of the credit spectrum. In addition, we set the fund's average duration — a measure of sensitivity to changing interest rates — in a position we considered shorter than industry averages, which helped protect the fund from heightened market volatility and enabled it to participate more fully

**4**

---

in relative strength in the intermediate-term part of the market's maturity range. While the fund invested in a number of bonds with third-party insurance, relatively few of its holdings carried insurance from the more troubled bond insurers. Finally, the fund benefited from a higher-than-usual cash balance, which we deployed into short-term tax-exempt instruments such as variable rate demand notes and auction-rate securities, which offered generous yields due to temporary supply-and-demand imbalances.

On the other hand, the fund's leveraging strategy was impacted during the latter part of the reporting period. The fund has issued preferred shares on which dividend rates are periodically reset through auctions. During the latter part of the reporting period, these auctions failed to attract enough bidders, and the rate paid to preferred shareholders was consequently reset based on a reference rate as provided in the fund's initial public offering documents. The short-term rate paid to the preferred shareholders during the reporting period did not affect the dividends paid to the fund's common shareholders.

#### **Maintaining Caution in a Distressed Market**

## Edgar Filing: DREYFUS MUNICIPAL INCOME INC - Form N-CSR

As of the reporting period's end, the financial markets have remained unsettled, and economic conditions have continued to falter. Therefore, we currently intend to maintain a defensive investment posture. While we have begun to identify fundamentally sound municipal bonds that may have been punished too severely, we have held off on purchasing them until we see clearer signs that the worst of the downturn is behind us.

April 15, 2008

- <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.

The Fund 5

---

### STATEMENT OF INVESTMENTS

March 31, 2008 (Unaudited)

<b>Long-Term Municipal Investments</b>	Coupon Rate (%)	Maturity Date	Principal Amount (\$)	Value (\$)
<b>Alabama</b> 2.7%				
The Board of Trustees of the University of Alabama, HR (University of Alabama at Birmingham) (Insured; MBIA)	5.88	9/1/10	4,620,000 <sup>a</sup>	5,041,483
<b>Alaska</b> 3.7%				
Alaska Housing Finance Corporation, General Mortgage Revenue (Insured; MBIA)	6.05	6/1/39	6,845,000	6,882,647
<b>Arizona</b> 3.3%				
City of Phoenix, County of Maricopa and the County of Pima Industrial Development Authorities, SFMR (Collateralized: FHLMC, FNMA and GNMA)	5.80	12/1/39	4,365,000	4,368,361
Pima County Industrial Development Authority, Education Revenue (American Charter Schools Foundation Project)	5.63	7/1/38	2,000,000	1,741,080
<b>California</b> 15.1%				
ABAG Financial Authority for Nonprofit Corporations, Insured Revenue, COP (Odd Fellows Home of California)	6.00	8/15/24	5,000,000	5,056,100
California Department of Veteran Affairs, Home Purchase Revenue	5.20	12/1/28	2,950,000	2,950,265

Edgar Filing: DREYFUS MUNICIPAL INCOME INC - Form N-CSR

California Educational Facilities Authority, Revenue (Mills College)	5.00	9/1/34	1,300,000	1,232,465
California Health Facilities Financing Authority, Revenue (Sutter Health)	6.25	8/15/35	2,500,000	2,651,050
California Housing Finance Agency, Home Mortgage Revenue	4.80	8/1/36	2,500,000	2,193,625
California Statewide Communities Development Authority, COP (Catholic Healthcare West)	6.50	7/1/10	3,545,000 <sup>a</sup>	3,900,280
California Statewide Communities Development Authority, COP (Catholic Healthcare West)	6.50	7/1/10	1,455,000 <sup>a</sup>	1,597,779

6

<b>Long-Term Municipal Investments (continued)</b>	Coupon Rate (%)	Maturity Date	Principal Amount (\$)	Value (\$)
<b>California (continued)</b>				
Chabot-Las Positas Community College District, GO (Insured; AMBAC)	0.00	8/1/32	6,000,000	1,464,600
Golden State Tobacco Securitization Corporation, Tobacco Settlement Asset-Backed Bonds	7.80	6/1/13	3,000,000 <sup>a</sup>	3,620,100
Golden State Tobacco Securitization Corporation, Tobacco Settlement Asset-Backed Bonds	5.75	6/1/47	3,500,000	3,101,980
<b>Colorado 12.5%</b>				
Colorado Health Facilities Authority, HR (Poudre Valley Health Care, Inc. and Medical Center of the Rockies) (Insured; FSA)	10.26	3/1/40	6,000,000 <sup>b</sup>	6,000,000
Colorado Springs, HR	6.38	12/15/10	2,835,000 <sup>a</sup>	3,142,853
Colorado Springs, HR	6.38	12/15/30	2,890,000	2,984,185
University of Northern Colorado Board of Trustees, Auxiliary Facilities System Revenue (Insured; FSA)	5.00	6/1/35	11,000,000 <sup>c,d</sup>	10,996,150
<b>District of Columbia 1.5%</b>				
District of Columbia, Revenue (Catholic University				

Edgar Filing: DREYFUS MUNICIPAL INCOME INC - Form N-CSR

America Project) (Insured; AMBAC)	5.63	10/1/09	1,605,000 <sup>a</sup>	1,707,495
District of Columbia, Revenue (Catholic University America Project) (Insured; AMBAC)	5.63	10/1/29	475,000	482,904
District of Columbia Housing Finance Agency, SFMR (Collateralized: FHA, FNMA, GNMA and GIC; Trinity Funding)	7.45	12/1/30	500,000	509,235

The Fund 7

STATEMENT OF INVESTMENTS (Unaudited) (continued)

<b>Long-Term Municipal Investments (continued)</b>	Coupon Rate (%)	Maturity Date	Principal Amount (\$)	Value (\$)
<b>Florida 1.4%</b>				
Orange County Health Facilities Authority, HR (Orlando Regional Healthcare System)	6.00	10/1/09	30,000 <sup>a</sup>	32,017
Orange County Health Facilities Authority, HR (Orlando Regional Healthcare System)	6.00	10/1/26	1,470,000	1,501,546
South Lake County Hospital District, Revenue (South Lake Hospital, Inc.)	5.80	10/1/34	1,095,000	1,101,307
<b>Illinois 12.0%</b>				
Chicago (Insured; FGIC)	6.13	7/1/10	3,685,000 <sup>a</sup>	4,025,052
Chicago (Insured; FGIC)	6.13	7/1/10	315,000 <sup>a</sup>	344,068
Illinois Development Finance Authority, Revenue (Community Rehabilitation Providers Facilities Acquisition Program)	8.75	3/1/10	40,000	40,259
Illinois Finance Authority, Revenue (Sherman Health Systems)	5.50	8/1/37	2,000,000	1,847,080
Illinois Health Facilities Authority, Revenue (Advocate Health Care Network)	6.13	11/15/10	5,800,000 <sup>a</sup>	6,336,442
Illinois Health Facilities Authority, Revenue (OSF Healthcare System)	6.25	11/15/09	7,000,000 <sup>a</sup>	7,504,560

Edgar Filing: DREYFUS MUNICIPAL INCOME INC - Form N-CSR

Illinois Health Facilities Authority, Revenue (Swedish American Hospital)	6.88	5/15/10	2,000,000 <sup>a</sup>	2,170,880
<b>Indiana</b> 1.5%				
Franklin Township School Building Corporation, First Mortgage Bonds	6.13	7/15/10	2,500,000 <sup>a</sup>	2,757,225
<b>Iowa</b> 5%				
Coralville, Annual Appropriation Urban Renewal Tax Increment Revenue	5.00	6/1/47	1,175,000	986,319

8

<b>Long-Term Municipal Investments (continued)</b>	Coupon Rate (%)	Maturity Date	Principal Amount (\$)	Value (\$)
<b>Maryland</b> 5.2%				
Maryland Economic Development Corporation, Student Housing Revenue (University of Maryland, College Park Project)	5.63	6/1/13	2,000,000 <sup>a</sup>	2,256,600
Maryland Health and Higher Educational Facilities Authority, Revenue (The Johns Hopkins University Issue)	6.00	7/1/09	7,000,000 <sup>a</sup>	7,399,840
<b>Massachusetts</b> 6.4%				
Massachusetts Development Finance Agency, SWDR (Dominion Energy Brayton Point Issue)	5.00	2/1/36	2,000,000	1,757,700
Massachusetts Health and Educational Facilities Authority, Healthcare System Revenue (Covenant Health Systems Obligated Group Issue)	6.00	1/1/12	530,000 <sup>a</sup>	593,012
Massachusetts Health and Educational Facilities Authority, Healthcare System Revenue (Covenant Health Systems Obligated Group Issue)	6.00	7/1/31	1,970,000	2,015,842
Massachusetts Housing Finance Agency, SFHR	5.00	12/1/31	2,500,000	2,292,175
Massachusetts Industrial Finance Agency, Water Treatment Revenue (Massachusetts-American Hingham Project)	6.95	12/1/35	5,235,000	5,247,302



Edgar Filing: DREYFUS MUNICIPAL INCOME INC - Form N-CSR

**Michigan** 3.5%

Hancock Hospital Finance Authority, Mortgage Revenue (Portage Health) (Insured; MBIA)	5.45	8/1/08	2,145,000 <sup>a</sup>	2,168,509
Michigan Strategic Fund, SWDR (Genesee Power Station Project)	7.50	1/1/21	4,585,000	4,339,106

The Fund 9

STATEMENT OF INVESTMENTS (Unaudited) (continued)

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

	Coupon Rate (%)	Maturity Date	Principal Amount (\$)	Value (\$)
<b>Minnesota</b> 1.5%				
Minnesota Agricultural and Economic Development Board, Health Care System Revenue (Fairview Health Care Systems)	6.38	11/15/10	2,420,000 <sup>a</sup>	2,681,771
Minnesota Agricultural and Economic Development Board, Health Care System Revenue (Fairview Health Care Systems)	6.38	11/15/29	80,000	82,900
<b>Mississippi</b> 3.2%				
Mississippi Business Finance Corporation, PCR (System Energy Resources, Inc. Project)	5.88	4/1/22	6,000,000	5,914,560
<b>Missouri</b> 2.7%				
Missouri Development Finance Board, Infrastructure Facilities Revenue (Branson Landing Project)	5.00	6/1/35	2,500,000	2,174,250
Missouri Health and Educational Facilities Authority, Health Facilities Revenue (Saint Anthony's Medical Center)	6.25	12/1/10	2,500,000 <sup>a</sup>	2,762,875
Missouri Housing Development Commission, SFMR (Homeownership Loan Program) (Collateralized: FNMA and GNMA)	6.30	9/1/25	130,000	131,842
<b>Nevada</b> 2.2%				
Clark County, IDR (Southwest Gas Corporation Project) (Insured; AMBAC)	6.10	12/1/38	4,000,000	4,041,360

Edgar Filing: DREYFUS MUNICIPAL INCOME INC - Form N-CSR

**New Jersey** 0.8%

New Jersey Economic Development  
Authority, Cigarette Tax

Revenue	5.50	6/15/31	1,610,000	1,498,282
---------	------	---------	-----------	-----------

**New Mexico** 2.3%

Farmington,  
PCR (Public Service Company of  
New Mexico San Juan Project)

	6.30	12/1/16	3,000,000	3,007,320
--	------	---------	-----------	-----------

New Mexico Mortgage Finance  
Authority, Single Family  
Mortgage Program (Collateralized:  
FHLMC and GNMA)

	6.85	9/1/31	1,305,000	1,326,324
--	------	--------	-----------	-----------

**10**

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

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

**New York** 0.8%

Long Island Power Authority,  
Electric System General Revenue

5.00	9/1/27	1,500,000	1,494,405
------	--------	-----------	-----------

**North Carolina** 2.8%

Gaston County Industrial  
Facilities and Pollution  
Control Financing Authority,  
Exempt Facilities Revenue  
(National Gypsum Company  
Project)

5.75	8/1/35	1,500,000	1,248,090
------	--------	-----------	-----------

North Carolina Eastern Municipal  
Power Agency, Power System  
Revenue

5.13	1/1/26	3,000,000	2,816,670
------	--------	-----------	-----------

North Carolina Housing Finance  
Agency, Home Ownership Revenue

6.25	1/1/29	1,145,000	1,151,687
------	--------	-----------	-----------

**Ohio** 13.4%

Buckeye Tobacco Settlement  
Financing Authority, Tobacco  
Settlement Asset-Backed Bonds

6.50	6/1/47	8,000,000	7,760,000
------	--------	-----------	-----------

Cuyahoga County,  
Hospital Improvement Revenue  
(The Metrohealth System  
Project)

6.13	2/15/09	5,000,000 <sup>a</sup>	5,229,600
------	---------	------------------------	-----------

Ohio Air Quality Development  
Authority, PCR (FirstEnergy  
Generation Corporation  
Project) (Insured; AMBAC)

10.24	8/1/20	5,810,000 <sup>b</sup>	5,810,000
-------	--------	------------------------	-----------

Ohio Housing Finance Agency,  
Residential Mortgage Revenue

Edgar Filing: DREYFUS MUNICIPAL INCOME INC - Form N-CSR

(Collateralized; GNMA) Rickenbacker Port Authority, Capital Funding Revenue (OASBO Expanded Asset Pooled) Toledo-Lucas County Port Authority, Special Assessment Revenue (Crocker Park Public Improvement Project)	5.75	9/1/30	5,000	5,059
	5.38	1/1/32	4,090,000	4,153,027
<b>Oklahoma</b> 1.4% Oklahoma Development Finance Authority, Revenue (Saint John Health System)	5.38	12/1/35	2,000,000	1,830,820
	6.00	2/15/29	625,000	641,937

The Fund **11**

STATEMENT OF INVESTMENTS (Unaudited) (continued)

<b>Long-Term Municipal Investments (continued)</b>	Coupon Rate (%)	Maturity Date	Principal Amount (\$)	Value (\$)
<b>Oklahoma (continued)</b> Oklahoma Development Finance Authority, Revenue, Refunding (Saint John Health System)	6.00	2/15/09	1,875,000 <sup>a</sup>	1,963,275
<b>Oregon</b> 2.7% Oregon Department of Transportation, Highway User Tax Revenue	5.00	11/15/28	5,000,000	5,067,200
<b>Pennsylvania</b> 10.4% Pennsylvania Economic Development Financing Authority, RRR (Northampton Generating Project)	6.60	1/1/19	3,500,000	3,500,420
Philadelphia School District, GO (Insured; FGIC)	10.00	9/1/21	7,305,000 <sup>b</sup>	7,305,000
Sayre Health Care Facilities Authority, Revenue (Guthrie Health)	5.88	12/1/11	5,995,000 <sup>a</sup>	6,690,360
Sayre Health Care Facilities Authority, Revenue (Guthrie Health)	5.88	12/1/31	1,755,000	1,782,694
<b>Rhode Island</b> 1.1% Rhode Island Housing and Mortgage Finance Corporation, Homeownership Opportunity Revenue	4.70	10/1/32	2,405,000	2,115,462

**South Carolina** 10.7%

Lancaster Educational Assistance Program, Inc., Installment Purchase Revenue (The School District of Lancaster County, South Carolina, Project)	5.00	12/1/26	5,000,000	4,715,750
Medical University of South Carolina, Hospital Facilities Revenue	6.00	7/1/09	2,500,000 <sup>a</sup>	2,654,050
Piedmont Municipal Power Agency, Electric Revenue	5.25	1/1/21	3,500,000	3,503,255
Securing Assets for Education, Installment Purchase Revenue (Berkeley County School District Project)	5.13	12/1/30	2,500,000	2,369,875

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

	Coupon Rate (%)	Maturity Date	Principal Amount (\$)	Value (\$)
<b>South Carolina (continued)</b>				
Tobacco Settlement Revenue Management Authority of South Carolina, Tobacco Settlement Asset-Backed Bonds	6.38	5/15/28	2,900,000	2,898,115
Tobacco Settlement Revenue Management Authority of South Carolina, Tobacco Settlement Asset-Backed Bonds	6.38	5/15/30	3,750,000	3,639,488
<b>Tennessee</b> 1.0%				
Johnson City Health and Educational Facilities Board, Hospital First Mortgage Revenue (Mountain States Health Alliance)	5.50	7/1/36	2,000,000	1,861,940
<b>Texas</b> 15.2%				
Cities of Dallas and Fort Worth, Dallas/Fort Worth International Airport, Joint Revenue Improvement (Insured; FSA)	5.00	11/1/35	1,600,000	1,447,184
Gregg County Health Facilities Development Corporation, HR (Good Shepherd Medical Center Project) (Insured; Radian)	6.38	10/1/10	2,500,000 <sup>a</sup>	2,761,675
Harris County Health Facilities				

Edgar Filing: DREYFUS MUNICIPAL INCOME INC - Form N-CSR

Development Corporation, HR (Memorial Hermann Healthcare System)	6.38	6/1/11	3,565,000 <sup>a</sup>	3,985,955
Lubbock Educational Facilities Authority, Improvement Revenue (Lubbock Christian University)	5.25	11/1/37	1,500,000	1,327,170
North Texas Tollway Authority, System Revenue	5.75	1/1/40	7,000,000 <sup>e</sup>	7,020,020
Port of Corpus Christi Authority of Nueces County, Revenue (Union Pacific Corporation Project) Texas (Veterans Housing Assistance Program) (Collateralized; FHA)	5.65	12/1/22	4,500,000	4,225,500
	6.10	6/1/31	7,000,000	7,095,410

The Fund **13**

STATEMENT OF INVESTMENTS (Unaudited) (continued)

<b>Long-Term Municipal Investments (continued)</b>	Coupon Rate (%)	Maturity Date	Principal Amount (\$)	Value (\$)
<b>Utah</b> 1.1%				
Utah Housing Finance Agency, SFMR (Collateralized; FHA)	6.00	1/1/31	125,000	128,456
<b>Vermont</b> 1.1%				
Vermont Educational and Health Buildings Financing Agency, Revenue (Saint Michael's College Project)	6.00	10/1/28	1,500,000	1,569,165
Vermont Housing Finance Agency, SFHR (Insured; FSA)	6.40	11/1/30	445,000	451,804
<b>Washington</b> 2.9%				
Washington Higher Educational Facilities Authority, Revenue (Whitman College)	5.88	10/1/09	5,000,000 <sup>a</sup>	5,291,400
<b>West Virginia</b> 1.3%				
The County Commission of Pleasants County, PCR (Allegheny Energy Supply Company, LLC Pleasants Station Project)	5.25	10/15/37	2,500,000	2,333,350
<b>Wisconsin</b> 4.9%				
Badger Tobacco Asset Securitization Corporation, Tobacco Settlement				

Edgar Filing: DREYFUS MUNICIPAL INCOME INC - Form N-CSR

Asset-Backed Bonds	7.00	6/1/28	2,500,000	2,564,800
Wisconsin Health and Educational Facilities Authority, Revenue (Aurora Health Care, Inc.)	5.60	2/15/29	4,975,000	4,660,879
Wisconsin Health and Educational Facilities Authority, Revenue (Marshfield Clinic)	5.38	2/15/34	2,000,000	1,879,060
<b>Wyoming</b> 7%				
Sweetwater County, SWDR (FMC Corporation Project)	5.60	12/1/35	1,500,000	1,362,240
<b>U.S. Related</b> 9.9%				
Puerto Rico Highways and Transportation Authority, Transportation Revenue (Insured; MBIA)	5.00	7/1/38	8,000,000 <sup>c,d</sup>	8,125,920

14

<b>Long-Term Municipal Investments (continued)</b>	Coupon Rate (%)	Maturity Date	Principal Amount (\$)	Value (\$)
<b>U.S. Related (continued)</b>				
Puerto Rico Highways and Transportation Authority, Transportation Revenue (Insured; MBIA)	5.00	7/1/38	10,000,000 <sup>c,d</sup>	10,157,400
<b>Total Long-Term Municipal Investments</b> (cost \$296,645,314)				<b>300,558,529</b>

**Short-Term Municipal Investment** 1.2%

<b>Pennsylvania;</b>				
Pennsylvania Intergovernmental Cooperation Authority, Special Tax Revenue, Refunding (City of Philadelphia Funding Program) (Insured; AMBAC and Liquidity Facility; JPMorgan Chase Bank) (cost \$2,200,000)	10.00	4/7/08	2,200,000 <sup>f</sup>	<b>2,200,000</b>

<b>Total Investments</b> (cost \$298,845,314)			<b>163.6%</b>	<b>302,758,529</b>
<b>Liabilities, Less Cash and Receivables</b>			<b>(9.6%)</b>	<b>(17,698,589)</b>
<b>Preferred Stock, at redemption value</b>			<b>(54.0%)</b>	<b>(100,000,000)</b>
<b>Net Assets Applicable to Common Shareholders</b>			<b>100.0%</b>	<b>185,059,940</b>

## Edgar Filing: DREYFUS MUNICIPAL INCOME INC - Form N-CSR

<sup>a</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>b</sup> Variable rate security interest rate subject to periodic change.

<sup>c</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, 2008, these securities amounted to \$29,279,470 or 15.8% of net assets applicable to Common Shareholders.

<sup>d</sup> Collateral for floating rate borrowings.

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

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

The Fund **15**

### STATEMENT OF INVESTMENTS (Unaudited) (continued)

#### 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 Corporation
<b>FNMA</b>	Federal National 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 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 Assurance Insurance Corporation
<b>MFHR</b>	Multi-Family Housing Revenue	<b>MFMR</b>	Multi-Family Mortgage Revenue
<b>PCR</b>	Pollution Control Revenue	<b>PILOT</b>	Payment in Lieu of Taxes

Edgar Filing: DREYFUS MUNICIPAL INCOME INC - Form N-CSR

<b>RAC</b>	Revenue Anticipation 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 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 Anticipation Notes	<b>XLCA</b>	XL Capital Assurance

16

Summary of Combined Ratings (Unaudited)

Fitch	or	Moody's	or	Standard & Poor's	Value (%) <sup>□</sup>
AAA		Aaa		AAA	26.3
AA		Aa		AA	15.2
A		A		A	31.1
BBB		Baa		BBB	18.4
B		B		B	1.2
F1		MIG1/P1		SP1/A1	.8
Not Rated <sup>g</sup>		Not Rated <sup>g</sup>		Not Rated <sup>g</sup>	7.0
					<b>100.0</b>

<sup>□</sup> Based on total investments.

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

See notes to financial statements.

The Fund **17**

STATEMENT OF ASSETS AND LIABILITIES

March 31, 2008 (Unaudited)

	Cost	Value
<b>Assets (\$):</b>		
Investments in securities-See Statement of Investments	298,845,314	302,758,529
Receivable for investment securities sold		7,511,689
Interest receivable		4,898,799
Prepaid expenses		25,518
		<b>315,194,535</b>
<b>Liabilities (\$):</b>		
Due to The Dreyfus Corporation and affiliates <sup>□</sup> Note 3(b)		187,252
Cash overdraft due to Custodian		781,480
Payable for floating rate notes issued <sup>□</sup> Note 4		14,500,000
Payable for investment securities purchased		14,390,659
Interest and related expenses payable		122,800



Edgar Filing: DREYFUS MUNICIPAL INCOME INC - Form N-CSR

Dividends payable to Preferred Shareholders	44,229
Commissions payable	9,505
Accrued expenses	98,670
	<b>30,134,595</b>
<hr/>	
<b>Auction Preferred Stock</b> , 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
	<b>185,059,940</b>
<hr/>	
<b>Composition of Net Assets (\$):</b>	
Common Stock, par value, \$.001 per share (20,594,744 shares issued and outstanding)	20,595
Paid-in capital	185,627,788
Accumulated undistributed investment income[]net	407,060
Accumulated net realized gain (loss) on investments	(4,908,718)
Accumulated net unrealized appreciation (depreciation) on investments	3,913,215
	<b>185,059,940</b>
<hr/>	
<b>Shares Outstanding</b> (110 million shares authorized)	20,594,744
<b>Net Asset Value</b> , per share of Common Stock (\$)	<b>8.99</b>

See notes to financial statements.

18

**STATEMENT OF OPERATIONS**

Six Months Ended March 31, 2008 (Unaudited)

<b>Investment Income (\$):</b>	
<b>Interest Income</b>	<b>8,510,634</b>
<b>Expenses:</b>	
Management fee[]Note 3(a)	1,014,980
Interest and related expenses	247,905
Commission fees[]Note 1	133,537
Professional fees	40,549
Shareholders[] reports	24,555
Registration fees	13,333
Shareholder servicing costs[]Note 3(b)	13,225
Custodian fees[]Note 3(b)	11,902
Directors[] fees and expenses[]Note 3(c)	8,032
Miscellaneous	27,350
<b>Total Expenses</b>	<b>1,535,368</b>

<b>Investment Income-Net</b>	<b>6,975,266</b>
<hr/>	
<b>Realized and Unrealized Gain (Loss) on Investments</b> <small>□</small> <b>Note 4 (\$):</b>	
Net realized gain (loss) on investments	436,587
Net unrealized appreciation (depreciation) on investments	(7,838,972)
<b>Net Realized and Unrealized Gain (Loss) on Investments</b>	<b>(7,402,385)</b>
<b>Dividends on Preferred Stocks</b>	<b>(1,885,289)</b>
<b>Net (Decrease) in Net Assets Resulting from Operations</b>	<b>(2,312,408)</b>

See notes to financial statements.

The Fund **19**

## STATEMENT OF CHANGES IN NET ASSETS

	Six Months Ended March 31, 2008 (Unaudited)	Year Ended September 30, 2007
	<hr/>	<hr/>
<b>Operations (\$):</b>		
Investment income <small>□</small> net	6,975,266	14,280,972
Net realized gain (loss) on investments	436,587	372,141
Net unrealized appreciation (depreciation) on investments	(7,838,972)	(7,360,730)
Dividends on Preferred Stocks	(1,885,289)	(3,613,991)
<b>Net Increase (Decrease) in Net Assets Resulting from Operations</b>	<b>(2,312,408)</b>	<b>3,678,392</b>
<hr/>	<hr/>	<hr/>
<b>Dividends to Common Shareholders from (\$) Investment income <small>□</small> net</b>	<b>(5,066,307)</b>	<b>(10,130,835)</b>
<hr/>	<hr/>	<hr/>
<b>Capital Stock Transactions (\$):</b>		
Dividends reinvested	□	51,799
<b>Total Increase (Decrease) in Net Assets</b>	<b>(7,378,715)</b>	<b>(6,400,644)</b>
<hr/>	<hr/>	<hr/>
<b>Net Assets (\$):</b>		
Beginning of Period	192,438,655	198,839,299
<b>End of Period</b>	<b>185,059,940</b>	<b>192,438,655</b>
Undistributed investment income <small>□</small> net	407,060	383,390
<hr/>	<hr/>	<hr/>
<b>Capital Share Transactions (shares):</b>		
<b>Increase in Shares Outstanding as a Result of Dividends Reinvested</b>	□	<b>5,424</b>

See notes to financial statements.

## 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.

Six Months Ended

March 31, 2008

	(Unaudited)	Year Ended September 30,				
		2007	2006	2005	2004	2003
<b>Per Share Data (\$):</b>						
Net asset value, beginning of period	9.34	9.66	9.68	9.51	9.51	9.78
Investment Operations:						
Investment income <sup>a</sup>	.34	.69	.65	.68	.69	.72
Net realized and unrealized gain (loss) on investments	(.35)	(.34)	.00 <sup>b</sup>	.21	.09	(.24)
Dividends on Preferred Stock from investment income <sup>net</sup>	(.09)	(.18)	(.15)	(.10)	(.06)	(.07)
Total from Investment Operations	(.10)	.17	.50	.79	.72	.41
Distributions to Common Shareholders:						
Dividends from investment income <sup>net</sup>	(.25)	(.49)	(.52)	(.62)	(.72)	(.68)
Net asset value, end of period	8.99	9.34	9.66	9.68	9.51	9.51
Market value, end of period	8.49	8.67	9.17	9.35	10.25	9.69
<b>Total Return (%)<sup>c</sup></b>	.76 <sup>d</sup>	(.34)	3.86	(2.58)	14.08	8.48

The Fund **21**

## FINANCIAL HIGHLIGHTS (continued)

Six Months Ended

March 31, 2008

	(Unaudited)	Year Ended September 30,				
		2007	2006	2005	2004	2003
<b>Ratios/Supplemental Data (%):</b>						
Ratio of total expenses to average net assets applicable to Common Stock <sup>e</sup>	1.62 <sup>f</sup>	1.67	1.61	1.48	1.40	1.42
Ratio of net investment income						

Edgar Filing: DREYFUS MUNICIPAL INCOME INC - Form N-CSR

to average net assets applicable to Common Stock <sup>e</sup>	7.34 <sup>f</sup>	7.28	6.83	7.03	7.29	7.60
Ratio of total expenses to total average net assets	1.06 <sup>f</sup>	1.11	1.06	.99	.93	.94
Ratio of net investment income to total average net assets	4.81 <sup>f</sup>	4.82	4.53	4.67	4.81	5.02
Portfolio Turnover Rate	23.61 <sup>d</sup>	10.30	10.09	12.62	6.72	9.88
Asset Coverage of Preferred Stock, end of period	285	292	300	299	295	294
<hr/>						
Net Assets net of Preferred Stock, end of period (\$ x 1,000)	185,060	192,439	198,839	199,388	195,395	194,390
Preferred Stock Outstanding, end of period (\$ x 1,000)	100,000	100,000	100,000	100,000	100,000	100,000

- a* Based on average shares outstanding at each month end.
- b* Amount represents less than \$.01 per share.
- c* Calculated based on market value.
- d* Not annualized.
- e* Does not reflect the effect of dividends to Preferred Stockholders.
- f* Annualized.

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS (Unaudited)

**NOTE 1 Significant Accounting Policies:**

Dreyfus Municipal Income, Inc. (the "fund") is registered under the Investment Company Act of 1940, as amended (the "Act"), as a non-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. On July 1, 2007, Mellon Financial Corporation ("Mellon Financial") and The Bank of New York Company, Inc. merged, forming The Bank of New York Mellon Corporation ("BNY Mellon"). As part of this transaction, Dreyfus became a wholly-owned subsidiary of BNY Mellon. The fund's Common Stock trades on the American Stock Exchange under the ticker symbol DMF.

The fund has outstanding 2,000 shares of Series A and 2,000 shares of Series B 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 Whitney I.

Gerard and George L. Perry as directors to be elected by the holders of APS.

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

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.

The Financial Accounting Standards Board ("FASB") released Statement of Financial Accounting Standards No. 157 "Fair Value Measurements" ("FAS 157"). FAS 157 establishes an authoritative definition of fair value, sets out a framework for measuring fair value, and requires additional disclosures about fair-value measurements. The application of FAS 157 is required for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. Management does not believe that the application of this standard will have a material impact on the financial statements of the fund.

**24**

**(b) Securities transactions and investment income:** Securities transactions are recorded on a trade date basis. Realized gains and losses from securities transactions are recorded on the identified cost basis. Interest income, adjusted for accretion of discount and amortization of premium on investments, is earned from settlement date and recognized on the accrual basis. Securities purchased or sold on a when-issued or delayed-delivery basis may be settled a month or more after the trade date.

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

NOTES TO FINANCIAL STATEMENTS (Unaudited) (continued)

On March 28, 2008, the Board of Directors declared a cash dividend of \$.041 per share from investment income-net, payable on April 30, 2008 to Common Shareholders of record as of the close of business on April 11, 2008.

**(d) Dividends to shareholders of APS:** Dividends, which are cumulative, are generally reset every 7 days for each Series of APS pursuant to a process specified in related fund charter documents. Dividends rates as of March 31, 2008 for each Series of APS were as follows: Series A 3.229% and Series B 3.229% . These rates reflect the "maximum rates" under the governing instruments as a result of "failed auctions" in which sufficient clearing bids are not received.

**(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.

During the current year, the fund adopted FASB Interpretation No. 48 "Accounting for Uncertainty in Income Taxes" ("FIN 48"). FIN 48 provides guidance for how uncertain tax positions should be recognized, measured, presented and disclosed in the financial statements. FIN 48 requires the evaluation of tax positions taken or expected to be taken in the course of preparing the fund's tax returns to determine whether the tax positions are "more-likely-than-not" of being sustained by the applicable tax authority. Tax positions not deemed to meet the more likely-than-not threshold would be recorded as a tax benefit or expense in the current year. The adoption of FIN 48 had no impact on the operations of the fund for the period ended March 31, 2008.

Each of the tax years in the three-year period ended September 30, 2007 remains subject to examination by the Internal Revenue Service and state taxing authorities.

The fund has an unused capital loss carryover of \$5,448,823 available for federal income tax purposes to be applied against future net securities profits, if any, realized subsequent to September 30, 2007. If not

26

---

applied, \$604,058 of the carryover expires in fiscal 2009, \$1,413,550 expires in fiscal 2010, \$360,799 expires in fiscal 2011 and \$3,070,416 expires in fiscal 2012.

The tax character of distributions paid to shareholders during the fiscal year ended September 30, 2007 was as follows: tax exempt income \$13,744,826. 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. During the period ended March 31, 2008, the fund did not borrow under the line of credit.

**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 .70% of the value of the fund's average daily net assets, inclusive of the outstanding auction preferred stock, and is payable monthly. The Agreement provides that if in any full fiscal year the aggregate expenses of the fund, exclusive of taxes, interest on borrowings, brokerage fees and extraordinary expenses, exceed the expense limitation of any state having jurisdiction over the fund, the fund may deduct from payments to be made to the Manager, or the Manager will bear, the amount of such excess to the extent required by state law. During the period ended March 31, 2008, there was no expense reimbursement pursuant to the Agreement.

(b) The fund compensates Mellon Bank under a transfer agency agreement for providing personnel and facilities to perform transfer agency services for the fund. During the period ended March 31, 2008, the fund was charged \$9,332 pursuant to the transfer agency agreement.

The Fund 27

---

NOTES TO FINANCIAL STATEMENTS (Unaudited) (continued)

The fund compensates Mellon Bank under a custody agreement for providing custodial services for the fund. During the period ended March 31, 2008, the fund was charged \$11,902 pursuant to the custody agreement.

During the period ended March 31, 2008, the fund was charged \$2,709 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 \$169,043, custodian fees \$11,969, transfer agency per accounts fees \$3,531 and chief compliance officer fees \$2,709.

(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, 2008, amounted to \$81,637,662 and \$70,077,802, respectively.

The fund may participate in secondary inverse floater structures in which fixed-rate, tax-exempt municipal bonds purchased by the fund are transferred to a trust. The trust subsequently issues two or more variable rate securities that are collateralized by the cash flows of the fixed-rate, tax-exempt municipal bonds. One or more of these variable rate securities pays interest based on a short-term floating rate set by a remarketing agent at predetermined intervals. A residual interest tax-exempt security is also created by the trust, which is transferred to the fund, and is paid interest based on the remaining cash flow of the trust, after payment of interest on the other securities and various expenses of the trust.

At March 31, 2008, accumulated net unrealized appreciation on investments was \$3,913,215, consisting of \$10,637,752 gross unrealized appreciation and \$6,724,537 gross unrealized depreciation.

28

---

At March 31, 2008, 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).

In March 2008, the FASB released Statement of Financial Accounting Standards No. 161 "Disclosures about Derivative Instruments and Hedging Activities" (FAS 161). FAS 161 requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of gains and losses on derivative instruments and disclosures about credit-risk-related contingent features in derivative agreements. The application of FAS 161 is required for fiscal years beginning after November 15, 2008 and

interim periods within those fiscal years. At this time, management is evaluating the implications of FAS 161 and its impact on the financial statements and the accompanying notes has not yet been determined.

The Fund **29**

---

NOTES

**30**

---

The Fund **31**

---

NOTES

**32**

---

**OFFICERS AND DIRECTORS**

Dreyfus Municipal Income, Inc.

200 Park Avenue  
New York, NY 10166

**Directors**

Joseph S. DiMartino, Chairman

Clifford L. Alexander, Jr.

Lucy Wilson Benson ☐

David W. Burke

Whitney I. Gerard\*

Arthur A. Hartman ☐

George L. Perry\*

\* Auction Preferred Stock Directors

☐ Emeritus Board Member

**Portfolio Managers**

Joseph

P. Darcy

A. Paul

Disdier

Douglas J. Gaylor

Joseph A. Irace

Colleen A. Meehan

W. Michael Petty

Bill Vasiliou

James Welch

Monica S. Wieboldt

**Officers**

President

J. David Officer

Executive Vice President

Phillip N. Maisano

Executive Vice President

Joseph P. Darcy

Vice President and Secretary

Michael A. Rosenberg

Vice President and Assistant Secretaries

James Bitetto

Joni Lacks Charatan

Joseph M. Chioffi

Janette E. Farragher

John B. Hammalian

**Investment Adviser**

The Dreyfus Corporation

**Custodian**

Mellon Bank, N.A.

**Counsel**

Stroock & Stroock & Lavan LLP

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

Mellon Bank N.A. (Common Stock)

Deutsche Bank Trust Company America

(Auction Preferred Stock)



Robert R. Mullery  
Jeff Prusnofsky  
Treasurer  
James Windels  
Assistant Treasurers  
Richard Cassaro  
Gavin C. Reilly  
Robert Robol  
Robert Salviolo  
Robert Svagna  
Chief Compliance Officer  
Joseph W. Connolly

**Auction Agent**

Deutsche Bank Trust Company America  
(Auction Preferred Stock)

**Stock Exchange Listing**

AMEX Symbol: DMF

**Initial SEC Effective Date**

10/21/88

*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 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

33

---

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 1-202-551-8090.

Information regarding how the fund voted proxies relating to portfolio securities for the 12-month period ended June 30, 2007, is available on the SEC's website at <http://www.sec.gov> and without charge, upon request, by calling 1-800-645-6561.

---

**Item 2. Code of Ethics.**

Not applicable.

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

Not applicable.

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

Not applicable.

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

Not applicable.

**Item 6. Investments.**

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. [CLOSED END FUNDS ONLY]

**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

2

---

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 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.

3

---

**SIGNATURES**

Edgar Filing: DREYFUS MUNICIPAL INCOME INC - Form N-CSR

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

Dreyfus Municipal Income, Inc.

By: /s/ J. David Officer  
J. David Officer  
President

Date: May 22, 2008

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/ J. David Officer  
J. David Officer  
President

Date: May 22, 2008

By: /s/ James Windels  
James Windels  
Treasurer

Date: May 22, 2008

4

---

**EXHIBIT INDEX**

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

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

5

---