

DREYFUS MUNICIPAL INCOME INC
Form N-CSR
November 29, 2011

**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: 09/30

Date of reporting period: 09/30/11

FORM N-CSR

Item 1. Reports to Stockholders.

Dreyfus Municipal Income, Inc.

ANNUAL REPORT September 30, 2011

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

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FOR MORE INFORMATION

Dreyfus
Municipal Income, Inc.

The Fund

A LETTER FROM THE CHAIRMAN AND CEO

Dear Shareholder:

This annual report for Dreyfus Municipal Income, Inc. covers the 12-month period from October 1, 2010, through September 30, 2011. For information about how the fund performed during the reporting period, as well as general market perspectives, we provide a Discussion of Fund Performance on the pages that follow.

Investors generally were encouraged by expectations of a more robust economic recovery over the first half of the reporting period, but investor sentiment deteriorated sharply during the second half due to disappointing economic data, rising commodity prices, an escalating sovereign debt crisis in Europe and a contentious debate regarding taxes, spending and borrowing in the United States. Market volatility was particularly severe during August and September after a major credit rating agency downgraded U.S. long-term debt. While most fixed-income securities proved volatile in this tumultuous environment, municipal bonds held up relatively well due to robust demand for a limited supply of newly issued securities.

The economic outlook currently is clouded by heightened market turbulence and political infighting, but we believe that a continued subpar global expansion is more likely than a return to recession. Inflationary pressures appear to be waning in most countries as energy prices recently have retreated from their highs. In the United States, the Federal Reserve Board has signaled its intention to maintain an aggressively accommodative monetary policy, which may help offset the financial stresses caused by deleveraging in the private sector and fiscal consolidation by governments in the United States and Europe. To assess the potential impact of these and other developments on your investments, we encourage you, as always, to speak with your financial advisor.

Thank you for your continued confidence and support.

Jonathan R. Baum
Chairman and Chief Executive Officer
The Dreyfus Corporation
October 17, 2011

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DISCUSSION OF FUND PERFORMANCE

For the period of October 1, 2010, through September 30, 2011, as provided by James Welch, Portfolio Manager

Fund and Market Performance Overview

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For the 12-month period ended September 30, 2011, Dreyfus Municipal Income achieved a total return of 4.61% on a net-asset-value basis.¹ Over the same period, the fund provided aggregate income dividends of \$0.62 per share, which reflects a distribution rate of 6.49%.²

After encountering weak market conditions over the final months of 2010, municipal bonds generally rebounded in 2011 due to favorable supply-and-demand dynamics. The fund's results were enhanced by its leveraging strategy, which continued to benefit from historically low short-term interest rates.

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.

To this end, we have constructed a portfolio derived from seeking income opportunities through analysis of each bond's structure, including paying close attention to each bond's yield, maturity and early redemption features. Over time, many of the fund's relatively higher yielding bonds mature or are redeemed by their issuers, and we generally attempt to replace those bonds with investments consistent with the fund's investment policies, albeit with yields that reflect the then-current interest-rate environment. When making new investments, we focus on

The Fund

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DISCUSSION OF FUND PERFORMANCE *(continued)*

identifying undervalued sectors and securities, and we minimize the use of interest rate forecasting. We use fundamental analysis to estimate the relative value and attractiveness of various sectors and securities and to exploit pricing inefficiencies in the municipal bond market.

Municipal Bonds Held Up Relatively Well Amid Uncertainty

Stimulative measures from the Federal Reserve Board, improved economic data and rising corporate earnings generally supported investor sentiment into the first quarter of 2011. While investor confidence was shaken in February due to political unrest in the Middle East, and again in March, when natural and nuclear disasters struck Japan, most markets bounced back quickly from these unexpected shocks.

Economic sentiment began to deteriorate in earnest in late April when Greece appeared headed for default on its sovereign debt, U.S. economic data disappointed and the debate regarding U.S. government spending and borrowing intensified. Riskier assets suffered bouts of volatility as investors shifted their focus to traditionally defensive investments. Turbulence among stocks and lower-rated bonds was particularly severe in August and September, after a major credit-rating agency downgraded its assessment of long-term U.S. debt securities.

Despite these developments, municipal bond prices were buoyed in 2011 by strong investor demand for a limited supply of newly issued securities, more than offsetting the effects of market weakness at the end of 2010. The termination of the federally subsidized Build America Bonds program and political pressure to reduce spending led to less municipal borrowing over the first months of 2011. Yet, demand remained robust from investors seeking competitive levels of tax-exempt income.

Longer-Term Bonds Buoyed Relative Performance

The fund's results were driven by strong performance among longer-term bonds, which fared well when long-term interest rates fell amid deteriorating economic conditions later in the reporting period. In addition, the use of tender option bonds for a portion of the fund's leveraging strategy proved effective when the fund's borrowing costs remained anchored by historically low short-term interest rates.

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We identified attractive values among general obligation bonds from states that, in our analysis, were punished too severely during the market downturn over the final months of 2010. Bonds from California, Illinois and New Jersey rebounded strongly in 2011 as credit conditions stabilized, boosting the fund's returns. Revenue bonds backed by essential-services facilities also fared well over the reporting period. However,

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the positive impact of these strategies was offset to a degree by bonds backed by charter schools and the states' settlement of litigation with U.S. tobacco companies, the latter of which suffered credit-rating downgrades during the reporting period.

Adjusting to a Slower-Growth Environment

Throughout the reporting period, we took steps to improve the fund's risk profile by increasing the credit quality of its holdings, including municipal bonds that historically have been attractive to individual investors. At the same time, we intend to remain vigilant in monitoring risks stemming from changes in interest rates and credit conditions until the direction and strength of the U.S. economy become clearer.

October 17, 2011

Bond funds are subject generally to interest rate, credit, liquidity and market risks, to varying degrees. Generally, all other factors being equal, bond prices are inversely related to interest-rate changes, and rate increases can cause price declines.

High yield bonds are subject to increased credit risk and are considered speculative in terms of the issuer's perceived ability to continue making interest payments on a timely basis and to repay principal upon maturity.

The use of leverage may magnify the fund's gains or losses. For derivatives with a leveraging component, adverse changes in the value or level of the underlying asset can result in a loss that is much greater than the original investment in the derivative.

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

The Fund

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SELECTED INFORMATION

September 30, 2011 (Unaudited)

Market Price per share September 30, 2011	\$ 9.55
Shares Outstanding September 30, 2011	20,623,542
NYSE AMEX Ticker Symbol	DMF

MARKET PRICE (NYSE AMEX)

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Fiscal Year Ended September 30, 2011				
	Quarter	Quarter	Quarter	Quarter
	Ended	Ended	Ended	Ended
	December 31, 2010	March 31, 2011	June 30, 2011	September 30, 2011
High	\$ 10.01	\$ 8.92	\$ 8.94	\$ 9.55
Low	8.34	7.86	8.45	8.21
Close	8.93	8.83	8.88	9.55

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

October 24, 1988 (commencement of operations)	
through September 30, 2011	341.52 %
October 1, 2001 through September 30, 2011	107.81
October 1, 2006 through September 30, 2011	41.50
October 1, 2010 through September 30, 2011	2.85
January 1, 2011 through September 30, 2011	12.79
April 1, 2011 through September 30, 2011	11.99
July 1, 2011 through September 30, 2011	9.40

NET ASSET VALUE PER SHARE

October 24, 1988 (commencement of operations)	\$ 9.26
September 30, 2010	9.67
December 31, 2010	8.74
March 31, 2011	8.54
June 30, 2011	9.03
September 30, 2011	9.44

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

October 24, 1988 (commencement of operations)	
through September 30, 2011	371.31%
October 1, 2001 through September 30, 2011	85.20
October 1, 2006 through September 30, 2011	32.78
October 1, 2010 through September 30, 2011	4.61
January 1, 2011 through September 30, 2011	13.91
April 1, 2011 through September 30, 2011	14.46
July 1, 2011 through September 30, 2011	6.34

* *With dividends reinvested.*

STATEMENT OF INVESTMENTS

September 30, 2011

Long-Term Municipal Investments—150.3%	Coupon Rate (%)	Maturity Date	Principal Amount (\$)	Value (\$)
Arizona—9.7%				
Barclays Capital Municipal Trust Receipts (Salt River Project Agricultural Improvement and Power District, Salt River Project Electric System Revenue)	5.00	1/1/38	9,998,763 ^{a,b}	10,668,963
Glendale Western Loop 101 Public Facilities Corporation, Third Lien Excise Tax Revenue	6.25	7/1/28	1,000,000	1,045,410
Glendale Western Loop 101 Public Facilities Corporation, Third Lien Excise Tax Revenue	7.00	7/1/28	2,000,000	2,124,100
Pima County Industrial Development Authority, Education Revenue (American Charter Schools Foundation Project)	5.63	7/1/38	2,000,000	1,602,340
Pima County Industrial Development Authority, IDR (Tucson Electric Power Company Project)	5.75	9/1/29	1,000,000	1,015,260
Pinal County Electrical District Number 4, Electric System Revenue	6.00	12/1/38	2,300,000	2,376,797
California—23.0%				
ABAG Financial Authority for Nonprofit Corporations, Insured Revenue, COP (Odd Fellows Home of California)	6.00	8/15/24	5,000,000 ^c	5,112,000
California, GO (Various Purpose)	5.75	4/1/31	3,950,000	4,344,526
California, GO (Various Purpose)	6.00	3/1/33	1,250,000	1,417,137

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California, GO (Various Purpose)	6.50	4/1/33	3,000,000	3,539,490
California, GO (Various Purpose)	6.00	11/1/35	2,500,000	2,819,425
California Health Facilities Financing Authority, Revenue (Sutter Health)	6.25	8/15/35	2,500,000 ^c	2,502,675
Chula Vista, IDR (San Diego Gas and Electric Company)	5.88	2/15/34	2,000,000	2,226,600

The Fund

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STATEMENT OF INVESTMENTS *(continued)*

Long-Term Municipal Investments (continued)	Coupon Rate (%)	Maturity Date	Principal Amount (\$)	Value (\$)
California (continued)				
Golden State Tobacco Securitization Corporation, Tobacco Settlement Asset-Backed Bonds	4.50	6/1/27	1,000,000	783,560
Golden State Tobacco Securitization Corporation, Tobacco Settlement Asset-Backed Bonds (Prerefunded)	7.80	6/1/13	3,000,000 ^d	3,361,440
JPMorgan Chase Putters/Drivers Trust (Los Angeles Departments of Airports, Senior Revenue (Los Angeles International Airport))	5.25	5/15/18	10,000,000 ^{a,b}	10,961,100
Sacramento County, Airport System Subordinate and Passenger Facility Charges Grant Revenue	6.00	7/1/35	2,250,000	2,439,720
San Diego Public Facilities Financing Authority, Senior Sewer Revenue	5.25	5/15/34	1,000,000	1,073,590
Tobacco Securitization Authority				

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of Southern California, Tobacco Settlement Asset-Backed Bonds (San Diego County Tobacco Asset Securitization Corporation)	5.00	6/1/37	3,500,000	2,427,040
Tuolumne Wind Project Authority, Revenue (Tuolumne Company Project)	5.88	1/1/29	1,500,000	1,673,940
Colorado—5.0%				
Colorado Educational and Cultural Facilities Authority, Charter School Revenue (American Academy Project)	8.00	12/1/40	1,500,000	1,770,780
Colorado Health Facilities Authority, Health Facilities Revenue (The Evangelical Lutheran Good Samaritan Society Project)	6.13	6/1/38	2,525,000 ^C	2,551,285

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Long-Term Municipal Investments (continued)	Coupon Rate (%)	Maturity Date	Principal Amount (\$)	Value (\$)
Colorado (continued)				
Colorado Springs, HR E-470 Public Highway Authority, Senior Revenue	6.38	12/15/30	2,890,000 ^C	2,893,237
University of Colorado Regents, University Enterprise Revenue	5.25	9/1/25	1,000,000	987,330
	5.38	6/1/38	1,500,000	1,630,335
Florida—8.8%				
Florida, Department of Transportation Right-of-Way Acquisition and Bridge Construction Bonds	5.00	7/1/24	1,500,000	1,715,190
Greater Orlando Aviation Authority, Airport Facilities Revenue	6.25	10/1/20	3,980,000	4,725,653
Mid-Bay Bridge Authority, Springing Lien Revenue	7.25	10/1/34	2,500,000	2,668,525
Orange County School Board,				

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COP (Master Lease Purchase Agreement) (Insured; Assured Guaranty Municipal Corp.)	5.50	8/1/34	2,000,000	2,138,200
Palm Beach County Health Facilities Authority, Revenue (The Waterford Project)	5.88	11/15/37	2,400,000 ^c	2,388,696
Saint Johns County Industrial Development Authority, Revenue (Presbyterian Retirement Communities Project)	5.88	8/1/40	2,500,000	2,527,225
South Lake County Hospital District, Revenue (South Lake Hospital, Inc.)	6.25	4/1/39	1,000,000 ^c	1,024,920
Georgia—3.5%				
Atlanta, Airport General Revenue	5.00	1/1/26	1,500,000	1,559,025
Atlanta, Water and Wastewater Revenue	6.00	11/1/28	3,000,000	3,383,310
Atlanta, Water and Wastewater Revenue (Insured; Assured Guaranty Municipal Corp.)	5.25	11/1/34	1,750,000	1,869,245

The Fund

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STATEMENT OF INVESTMENTS *(continued)*

Long-Term Municipal Investments (continued)	Coupon Rate (%)	Maturity Date	Principal Amount (\$)	Value (\$)
Hawaii—1.3%				
Hawaii Department of Budget and Finance, Special Purpose Revenue (Hawaiian Electric Company, Inc. and Subsidiary Projects)	6.50	7/1/39	2,400,000	2,578,848
Illinois—2.7%				
Chicago, General Airport Third Lien Revenue (Chicago O'Hare International Airport)	5.63	1/1/35	1,000,000	1,092,610

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Illinois, GO	5.00	3/1/28	1,075,000	1,084,331
Railsplitter Tobacco Settlement Authority, Tobacco Settlement Revenue	6.00	6/1/28	2,000,000	2,078,600
University of Illinois Board of Trustees, Auxiliary Facilities System Revenue	5.13	4/1/36	1,000,000	1,045,930
Indiana— .8%				
Indianapolis Local Public Improvement Bond Bank, Revenue (Indianapolis Airport Authority Project) (Insured; AMBAC)	5.00	1/1/36	1,500,000	1,480,170
Louisiana— .6%				
Louisiana Public Facilities Authority, Revenue (CHRISTUS Health Obligated Group)	6.13	7/1/29	1,000,000 ^c	1,089,240
Maine— .7%				
Maine Health and Higher Educational Facilities Authority, Revenue (MaineGeneral Medical Center Issue)	7.50	7/1/32	1,250,000 ^c	1,361,688
Maryland— 3.2%				
Maryland Economic Development Corporation, EDR (Transportation Facilities Project)	5.75	6/1/35	1,000,000	1,010,790
Maryland Economic Development Corporation, PCR (Potomac Electric Project)	6.20	9/1/22	2,500,000	2,996,325

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Long-Term Municipal Investments (continued)	Coupon Rate (%)	Maturity Date	Principal Amount (\$)	Value (\$)
Maryland (continued)				
Maryland Economic Development Corporation, Student Housing Revenue (University of Maryland, College Park Project) (Prerefunded)	5.63	6/1/13	2,000,000 ^d	2,174,120

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Massachusetts—12.3%

Barclays Capital Municipal Trust Receipts (Massachusetts Health and Educational Facilities Authority, Revenue (Massachusetts Institute of Technology Issue))	5.00	7/1/38	10,000,000 ^{a,b}	10,884,700
Massachusetts Development Finance Agency, Revenue (Tufts Medical Center Issue)	7.25	1/1/32	1,500,000 ^c	1,680,675
Massachusetts Health and Educational Facilities Authority, Healthcare System Revenue (Covenant Health Systems Obligated Group Issue)	6.00	7/1/31	1,970,000	1,992,970
Massachusetts Health and Educational Facilities Authority, Revenue (Suffolk University Issue)	6.25	7/1/30	2,000,000	2,173,580
Massachusetts Housing Finance Agency, Rental Housing Mortgage Revenue (Insured; AMBAC)	5.50	7/1/40	2,230,000	2,038,175
Massachusetts Industrial Finance Agency, Water Treatment Revenue (Massachusetts-American Hingham Project)	6.95	12/1/35	5,235,000	5,235,942

Michigan—8.0%

Detroit, Sewage Disposal System Senior Lien Revenue (Insured; Assured Guaranty Municipal Corp.)	7.50	7/1/33	2,140,000	2,561,473
Michigan Building Authority, Revenue (Facilities Program)	5.13	10/15/30	2,025,000	2,164,300

The Fund

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STATEMENT OF INVESTMENTS *(continued)*

Long-Term Municipal	Coupon	Maturity	Principal
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Investments (continued)	Rate (%)	Date	Amount (\$)	Value (\$)
Michigan (continued)				
Michigan Hospital Finance Authority, HR (Henry Ford Health System)	5.00	11/15/38	1,515,000 ^C	1,442,583
Michigan Strategic Fund, SWDR (Genesee Power Station Project)	7.50	1/1/21	3,885,000	3,688,147
Royal Oak Hospital Finance Authority, HR (William Beaumont Hospital Obligated Group)	8.00	9/1/29	2,500,000 ^C	2,962,125
Wayne County Airport Authority, Airport Revenue (Detroit Metropolitan Wayne County Airport) (Insured; National Public Finance Guarantee Corp.)	5.00	12/1/34	3,000,000	2,832,750
Minnesota—1.8%				
Minneapolis, Health Care System Revenue (Fairview Health Services)	6.75	11/15/32	3,000,000 ^C	3,356,010
Minnesota Agricultural and Economic Development Board, Health Care System Revenue (Fairview Health Care Systems)	6.38	11/15/29	80,000 ^C	80,118
Mississippi—3.1%				
Mississippi Business Finance Corporation, PCR (System Energy Resources, Inc. Project)	5.88	4/1/22	6,000,000	6,012,120
Missouri—.0%				
Missouri Housing Development Commission, SFMR (Homeownership Loan Program) (Collateralized: FNMA and GNMA)	6.30	9/1/25	70,000	71,429
Nevada—2.1%				
Clark County, IDR (Southwest Gas Corporation Project) (Insured; AMBAC)	6.10	12/1/38	4,000,000	4,003,200
New Jersey—4.3%				
New Jersey Economic Development Authority, Water Facilities Revenue (New Jersey—American				

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Water Company, Inc. Project)	5.70	10/1/39	2,000,000	2,107,180
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Long-Term Municipal Investments (continued)	Coupon Rate (%)	Maturity Date	Principal Amount (\$)	Value (\$)
New Jersey (continued)				
New Jersey Higher Education Student Assistance Authority, Student Loan Revenue (Insured; Assured Guaranty Municipal Corp.)	6.13	6/1/30	2,500,000	2,623,675
Tobacco Settlement Financing Corporation of New Jersey, Tobacco Settlement				
Asset-Backed Bonds	5.00	6/1/29	5,000,000	3,649,850
New Mexico—1.5%				
Farmington, PCR (Public Service Company of New Mexico San Juan Project)	5.90	6/1/40	3,000,000	2,986,560
New York—7.1%				
Barclays Capital Municipal Trust Receipts (New York City Transitional Finance Authority, Future Tax Secured Revenue)	5.00	5/1/30	7,996,797 ^{a,b}	8,720,077
New York City Educational Construction Fund, Revenue	6.50	4/1/28	1,500,000	1,817,175
New York City Industrial Development Agency, PILOT Revenue (Yankee Stadium Project) (Insured; Assured Guaranty Municipal Corp.)	7.00	3/1/49	1,435,000	1,652,761
Port Authority of New York and New Jersey, Special Project Bonds (JFK International Air Terminal LLC Project)	6.00	12/1/36	1,500,000	1,563,180
North Carolina—3.0%				
Barclays Capital Municipal Trust Receipts (North Carolina Medical Care Commission, Health Care Facilities Revenue				

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(Duke University Health System))	5.00	6/1/42	5,000,000 ^{a,b,c}	5,139,550
North Carolina Housing Finance Agency, Home Ownership Revenue	6.25	1/1/29	775,000	775,814
Ohio—2.8%				
Butler County, Hospital Facilities Revenue				
(UC Health)	5.50	11/1/40	1,500,000 ^c	1,460,670

The Fund

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STATEMENT OF INVESTMENTS (continued)

Long-Term Municipal Investments (continued)	Coupon Rate (%)	Maturity Date	Principal Amount (\$)	Value (\$)
Ohio (continued)				
Ohio Air Quality Development Authority, Air Quality Revenue (Ohio Valley Electric Corporation Project)	5.63	10/1/19	2,100,000	2,276,379
Toledo-Lucas County Port Authority, Special Assessment Revenue (Crocker Park Public Improvement Project)	5.38	12/1/35	2,000,000	1,785,360
Pennsylvania—5.2%				
Delaware County Industrial Development Authority, Charter School Revenue (Chester Community Charter School Project)	6.13	8/15/40	2,500,000	2,335,275
JPMorgan Chase Putters/Drivers Trust (Geisinger Authority, Health System Revenue (Geisinger Health System))	5.13	6/1/35	2,000,000 ^{a,b,c}	2,091,420
Pennsylvania Economic Development Financing Authority, RRR (Northampton Generating Project)	6.60	1/1/19	3,500,000	1,981,035
Philadelphia, GO Sayre Health Care Facilities	6.50	8/1/41	1,750,000	2,014,443

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Authority, Revenue (Guthrie Health) (Prerefunded)	5.88	12/1/11	1,755,000 ^{c,d}	1,789,574
Rhode Island—1.0%				
Tobacco Settlement Financing Corporation of Rhode Island, Tobacco Settlement				
Asset-Backed Bonds	6.13	6/1/32	2,000,000	2,000,940
South Carolina—6.9%				
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	5,115,050
South Carolina Public Service Authority, Revenue Obligations	5.50	1/1/38	3,000,000	3,317,460

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Long-Term Municipal Investments (continued)	Coupon Rate (%)	Maturity Date	Principal Amount (\$)	Value (\$)
South Carolina (continued)				
Tobacco Settlement Revenue Management Authority of South Carolina, Tobacco Settlement				
Asset-Backed Bonds	6.38	5/15/30	3,750,000	5,028,000
Texas—9.7%				
Barclays Capital Municipal Trust Receipts (Texas A&M University System Board of Regents, Financing System Revenue) Houston, Airport System Subordinate	5.00	5/15/39	5,000,000 ^{a,b}	5,462,500
Lien Revenue La Vernia Higher Education Finance Corporation, Education Revenue (Knowledge is Power Program, Inc.) Lubbock Educational Facilities Authority, Improvement Revenue (Lubbock	5.00	7/1/25	1,300,000	1,339,884
	6.25	8/15/39	2,250,000	2,347,740

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Christian University)	5.25	11/1/37	1,500,000	1,406,895
North Texas Tollway Authority, First Tier System Revenue (Insured; Assured Guaranty Municipal Corp.)	5.75	1/1/40	4,000,000	4,286,440
North Texas Tollway Authority, Second Tier System Revenue	5.75	1/1/38	4,000,000	4,123,320
Vermont—0.9%				
Vermont Educational and Health Buildings Financing Agency, Revenue (Saint Michael's College Project)	6.00	10/1/28	1,500,000	1,529,250
Vermont Housing Finance Agency, SFHR (Insured; Assured Guaranty Municipal Corp.)	6.40	11/1/30	225,000	229,721
Virginia—1.2%				
Washington County Industrial Development Authority, HR (Mountain States Health Alliance)	7.25	7/1/19	2,000,000 ^c	2,271,620

The Fund

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STATEMENT OF INVESTMENTS (continued)

Long-Term Municipal Investments (continued)	Coupon Rate (%)	Maturity Date	Principal Amount (\$)	Value (\$)
Washington—5.9%				
Barclays Capital Municipal Trust Receipts (King County, Sewer Revenue)	5.00	1/1/29	2,999,037 ^{a,b}	3,348,057
Washington Health Care Facilities Authority, Mortgage Revenue (Highline Medical Center) (Collateralized; FHA)	6.25	8/1/36	2,990,000 ^c	3,340,398
Washington Health Care Facilities Authority, Revenue (Catholic Health Initiatives)	6.38	10/1/36	1,500,000 ^c	1,656,450
Washington Housing Finance Commission, Revenue				

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(Single-Family Program) (Collateralized: FHLMC, FNMA and GNMA)	5.15	6/1/37	3,160,000	3,176,811
West Virginia—5%				
The County Commission of Harrison County, SWDR (Allegheny Energy Supply Company, LLC Harrison Station Project)	5.50	10/15/37	1,000,000	994,490
Wisconsin—2.5%				
Wisconsin Health and Educational Facilities Authority, Revenue (Aurora Health Care, Inc.)	5.60	2/15/29	4,780,000 ^C	4,781,673
Wyoming—1.1%				
Wyoming Municipal Power Agency, Power Supply System Revenue	5.50	1/1/38	2,000,000	2,130,780
U.S. Related—10.1%				
Government of Guam, LOR (Section 30)	5.75	12/1/34	1,500,000	1,540,665
Puerto Rico Commonwealth, Public Improvement GO	5.50	7/1/32	1,000,000	1,015,390
Puerto Rico Commonwealth, Public Improvement GO	6.50	7/1/40	1,000,000	1,095,960
Puerto Rico Electric Power Authority, Power Revenue	5.00	7/1/37	1,945,000	1,943,444
Puerto Rico Electric Power Authority, Power Revenue	5.50	7/1/38	5,400,000	5,551,092
Puerto Rico Electric Power Authority, Power Revenue	5.25	7/1/40	1,500,000	1,522,485

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Long-Term Municipal Investments (continued)	Coupon Rate (%)	Maturity Date	Principal Amount (\$)	Value (\$)
U.S. Related (continued)				
Puerto Rico Sales Tax Financing Corporation, Sales Tax Revenue (First Subordinate Series)	5.38	8/1/39	1,000,000	1,037,310
Puerto Rico Sales Tax Financing Corporation, Sales Tax Revenue (First Subordinate Series)	6.00	8/1/42	5,500,000	5,956,280

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Total Long-Term Municipal Investments					
(cost \$276,372,083)					292,841,101
Short-Term Municipal Investments— .9%					
California— .3%					
Irvine Assessment District Number 03-19, Limited Obligation Improvement Bonds (LOC: California State Teachers Retirement System and U.S. Bank NA)	0.20	10/1/11	500,000	e	500,000
New York— .6%					
New York City, GO Notes (LOC; JPMorgan Chase Bank)	0.14	10/1/11	1,200,000	e	1,200,000
Total Short-Term Municipal Investments					
(cost \$1,700,000)					1,700,000
Total Investments (cost \$278,072,083)				151.2 %	294,541,101
Liabilities, Less Cash and Receivables				(12.7 %)	(24,756,485)
Preferred Stock, at redemption value				(38.5 %)	(75,000,000)
Net Assets Applicable to Common Shareholders				100.0 %	194,784,616

a Collateral for floating rate borrowings.

b 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 September 30, 2011, these securities were valued at \$57,276,367 or 29.4% of net assets applicable to Common Shareholders.

c At September 30, 2011, the fund had \$50,976,607 or 26.2% of net assets applicable to Common Shareholders

invested in securities whose payment of principal and interest is dependent upon revenues generated from health care.

d 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.

e Variable rate demand note—rate shown is the interest rate in effect at September 30, 2011. Maturity date represents the next demand date, or the ultimate maturity date if earlier.

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STATEMENT OF INVESTMENTS *(continued)*

Summary of Abbreviations

ABAG	Association of Bay Area Governments	ACA	American Capital Access
AGC	ACE Guaranty Corporation	AGIC	Asset Guaranty Insurance Company
AMBAC	American Municipal Bond Assurance Corporation	ARRN	Adjustable Rate Receipt Notes
BAN	Bond Anticipation Notes	BPA	Bond Purchase Agreement
CIFG	CDC Ixis Financial Guaranty	COP	Certificate of Participation
CP	Commercial Paper	EDR	Economic Development Revenue
EIR	Environmental Improvement Revenue	FGIC	Financial Guaranty Insurance Company
FHA	Federal Housing Administration	FHLB	Federal Home Loan Bank
FHLMC	Federal Home Loan Mortgage Corporation	FNMA	Federal National Mortgage Association
GAN	Grant Anticipation Notes	GIC	Guaranteed Investment Contract
GNMA	Government National Mortgage Association	GO	General Obligation
HR	Hospital Revenue	IDB	Industrial Development Board
IDC	Industrial Development Corporation	IDR	Industrial Development Revenue
LOC	Letter of Credit	LOR	Limited Obligation Revenue
LR	Lease Revenue	MFHR	Multi-Family Housing Revenue
MFMR	Multi-Family Mortgage Revenue	PCR	Pollution Control Revenue
PILOT	Payment in Lieu of Taxes	PUTTERS	Puttable Tax-Exempt Receipts
RAC	Revenue Anticipation Certificates	RAN	Revenue Anticipation Notes
RAW	Revenue Anticipation Warrants	RRR	Resources Recovery Revenue
SAAN	State Aid Anticipation Notes	SBPA	Standby Bond Purchase Agreement
SFHR	Single Family Housing Revenue	SFMR	Single Family Mortgage Revenue
SONYMA	State of New York Mortgage Agency	SWDR	Solid Waste Disposal Revenue
TAN	Tax Anticipation Notes	TAW	Tax Anticipation Warrants
TRAN	Tax and Revenue Anticipation Notes	XLCA	XL Capital Assurance

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Summary of Combined Ratings (Unaudited)

Fitch	or	Moody's	or	Standard & Poor's	Value (%) [†]
AAA		Aaa		AAA	8.7
AA		Aa		AA	23.3

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A	A	A	40.1
BBB	Baa	BBB	22.9
CC	Ca	CC	.7
F1	MIG1/P1	SP1/A1	.2
Not Rated ^f	Not Rated ^f	Not Rated ^f	4.1
			100.0

[†] Based on total investments.

^f 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

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STATEMENT OF ASSETS AND LIABILITIES

September 30, 2011

	Cost	Value
Assets (\$):		
Investments in securities—See Statement of Investments	278,072,083	294,541,101
Interest receivable		4,953,409
Prepaid expenses		14,196
		299,508,706
Liabilities (\$):		
Due to The Dreyfus Corporation and affiliates—Note 2(b)		169,385
Cash overdraft due to Custodian		1,006,624
Payable for floating rate notes issued—Note 3		26,494,597
Payable for investment securities purchased		1,838,550
Interest and expense payable related to floating rate notes issued—Note 3		65,205
Commissions payable		13,626
Dividends payable to Preferred Shareholders		1,003
Accrued expenses		135,100
		29,724,090
Auction Preferred Stock , Series A and B, par value \$.001 per share (3,000 shares issued and outstanding at \$25,000)		

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per share liquidation preference)—Note 1	75,000,000
Net Assets applicable to Common Shareholders (\$)	194,784,616
Composition of Net Assets (\$):	
Common Stock, par value, \$.001 per share (20,623,542 shares issued and outstanding)	20,624
Paid-in capital	183,715,515
Accumulated undistributed investment income—net	5,087,521
Accumulated net realized gain (loss) on investments	(10,508,062)
Accumulated net unrealized appreciation (depreciation) on investments	16,469,018
Net Assets applicable to Common Shareholders (\$)	194,784,616
Shares Outstanding	
(110 million shares authorized)	20,623,542
Net Asset Value, per share of Common Stock (\$)	9.44

See notes to financial statements.

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STATEMENT OF OPERATIONS

Year Ended September 30, 2011

Investment Income (\$):	
Interest Income	15,931,524
Expenses:	
Management fee—Note 2(a)	1,818,615
Interest and expense related to floating rate notes issued—Note 3	159,498
Commission fees—Note 1	128,593
Professional fees	101,331
Shareholder servicing costs—Note 2(b)	42,991
Shareholders' reports	38,101
Registration fees	21,666
Custodian fees—Note 2(b)	20,609
Directors' fees and expenses—Note 2(c)	20,070
Miscellaneous	41,669
Total Expenses	2,393,143
Investment Income—Net	13,538,381
Realized and Unrealized Gain (Loss) on Investments—Note 3 (\$):	
Net realized gain (loss) on investments	(3,677,839)

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Net unrealized appreciation (depreciation) on investments	(1,446,561)
Net Realized and Unrealized Gain (Loss) on Investments	(5,124,400)
Dividends to Preferred Shareholders	(254,839)
Net Increase in Net Assets Resulting from Operations	8,159,142

See notes to financial statements.

The Fund

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STATEMENT OF CASH FLOWS

Year Ended September 30, 2011

Cash Flows from Operating Activities (\$):		
Interest received	15,868,910	
Operating expenses paid	(2,252,565)	
Dividends paid to Preferred Shareholders	(258,000)	
Purchases of portfolio securities	(61,357,488)	
Proceeds from sales of portfolio securities	59,187,766	
		11,188,623
Cash Flows from Financing Activities (\$):		
Net proceeds from floating rate notes issued	1,494,597	
Dividends paid to Common Shareholders	(12,574,337)	
Interest and expense related to		