

Dreyfus Municipal Income, Inc.

ANNUAL REPORT September 30, 2007



Dreyfus
A BNY Mellon CompanySM

Dreyfus Municipal Income, Inc.

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

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

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

Thank you for this opportunity to serve you.

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

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

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A LETTER FROM THE CEO

Dear Shareholder:

We are pleased to present this annual report for Dreyfus Municipal Income, Inc., covering the 12-month period from October 1, 2006, through September 30, 2007.

After an extended period of relative stability, fixed-income markets encountered heightened volatility during the reporting period as the credit cycle appeared to shift to a new phase. Turmoil in the U.S. sub-prime mortgage sector that began in late February spread to other areas of the economy over the summer, causing investors to reassess their attitudes toward risk. The ensuing “flight to quality” caused bond prices to fall sharply in the market’s more credit-sensitive areas. While we saw no overall change in the underlying credit fundamentals of municipal bonds, the tax-exempt market was nonetheless affected by liquidity concerns. To help restore liquidity, the Federal Reserve Board cut key short-term interest rates in August and September. Investors reacted favorably to the Fed’s moves, and municipal bond prices began to rebound.

We believe that these developments have created opportunities to purchase municipal bonds at more attractive prices and yields than have been available for some time. Since each investor’s situation is unique, we encourage you to talk about these investment matters with your financial advisor, who can help you make the right adjustments for your portfolio.

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.

Sincerely,

Thomas F. Eggers
Chief Executive Officer
The Dreyfus Corporation
October 15, 2007



DISCUSSION OF FUND PERFORMANCE

For the period of October 1, 2006, through September 30, 2007, as provided by W. Michael Petty, Senior Portfolio Manager

Fund and Market Performance Overview

After trading within a relatively finite range for most of the reporting period, a liquidity crisis over the summer of 2007 led to sharp declines in the municipal bond market. However, bond prices rebounded somewhat in late August and September, enabling the market to post a positive absolute return for the reporting period overall. The fund's performance was driven primarily by its focus on income-oriented securities, which generally held up better during the downturn than other types of tax-exempt bonds.

For the 12-month period ended September 30, 2007, Dreyfus Municipal Income achieved a total return of 1.91% (on a net asset value basis).¹ During the same period, the fund provided income dividends of \$0.49 per share, which is equal to a distribution rate of 5.67%.²

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, 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.

A Strong Market Rebound Offset Previous Declines

A moderate economic slowdown, mild inflation and stable short-term interest rates helped keep municipal bond prices within a relatively narrow range over the first eight months of the reporting period. Municipal bonds also were supported by robust investor demand and sound fiscal conditions for most states and municipalities. However, market conditions changed dramatically over the summer of 2007, when turmoil in the sub-prime mortgage sector of the taxable bond market spread to other fixed-income sectors. Although we saw no evidence of credit deterioration among municipal bond issuers, the tax-exempt market was affected by selling pressure from highly leveraged hedge funds and other institutional investors. In the immediate aftermath of the summertime decline, tax-exempt bonds traded at their highest yield levels in more than three years.

Bouts of reduced ready liquidity prompted the Federal Reserve Board (the "Fed") to cut both the discount rate and the federal funds rate late in the reporting period, the first reductions in short-term rates in more than four years. On average, the market responded favorably to the Fed's actions, sparking a rally that, by the reporting period's end, erased some, but not all, of its earlier losses. However, the rally was less pronounced at the longer end of the market's maturity spectrum, where the fund primarily focuses.

A Focus on Income Bolstered Fund Performance

Our security selection strategy primarily emphasized income-oriented bonds, including those selling at modest premiums to their face values.

These “cushion” bonds helped shelter the fund from the full brunt of the market’s summertime decline. In addition, because many of these bonds include provisions for early redemption, the fund’s average duration was shorter than industry averages, which also helped protect the fund from heightened market volatility. In addition, because the fund’s portfolio consisted of bonds rated investment grade (at the time of their purchase),³ the fund avoided some of the harder-hit segments of the broader municipal bond market. On the other hand, the fund’s leveraging strategy during the reporting period proved to be less effective than usual, primarily due to historically narrow yield differences between auction rate preferred stock and long-term municipal bonds.

Maintaining a Conservative Investment Posture

In our view, ongoing market volatility may provide opportunities to purchase long-term municipal bonds at relatively attractive prices. Still, we generally have retained the fund’s relatively defensive investment posture, including an emphasis on long-term, income-oriented bonds from issuers that have demonstrated good liquidity characteristics. We also have maintained rigorous credit standards, and our credit analysts help ensure that candidates for investment contain certain covenants designed to protect bondholders. In our view, these are prudent strategies in today’s changing economic and market environments.

October 15, 2007

- 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.*
- ³ *The fund may continue to own investment grade bonds (at the time of purchase) which are subsequently downgraded to below investment grade.*

SELECTED INFORMATION

September 30, 2007 (Unaudited)

Market Price per share September 30, 2007	\$8.67
Shares Outstanding September 30, 2007	20,594,744
American Stock Exchange Ticker Symbol	DMF

MARKET PRICE (AMERICAN STOCK EXCHANGE)

Fiscal Year Ended September 30, 2007

	Quarter Ended December 31, 2006	Quarter Ended March 31, 2007	Quarter Ended June 30, 2007	Quarter Ended September 30, 2007
High	\$9.55	\$9.68	\$9.88	\$9.18
Low	9.01	9.24	8.87	8.55
Close	9.23	9.66	8.95	8.67

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

October 24, 1988 (commencement of operations) through September 30, 2007	210.94%
October 1, 1997 through September 30, 2007	58.21
October 1, 2002 through September 30, 2007	24.78
October 1, 2006 through September 30, 2007	(0.34)
January 1, 2007 through September 30, 2007	(2.28)
April 1, 2007 through September 30, 2007	(7.81)
July 1, 2007 through September 30, 2007	(1.79)

NET ASSET VALUE PER SHARE

October 24, 1988 (commencement of operations)	\$ 9.26
September 30, 2006	9.66
December 31, 2006	9.65
March 31, 2007	9.60
June 30, 2007	9.43
September 30, 2007	9.34

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

October 24, 1988 (commencement of operations) through September 30, 2007	261.74%
October 1, 1997 through September 30, 2007	85.16
October 1, 2002 through September 30, 2007	31.95
October 1, 2006 through September 30, 2007	1.91
January 1, 2007 through September 30, 2007	0.69
April 1, 2007 through September 30, 2007	(0.07)
July 1, 2007 through September 30, 2007	0.42

* With dividends reinvested.

STATEMENT OF INVESTMENTS

September 30, 2007

Long-Term Municipal Investments—154.0%	Coupon Rate (%)	Maturity Date	Principal Amount (\$)	Value (\$)
Alabama—6.6%				
Jefferson County, Sewer Revenue Capital Improvement Warrants (Insured; FGIC)	5.75	2/1/09	7,500,000 ^a	7,795,050
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 ^a	4,960,817
Alaska—3.6%				
Alaska Housing Finance Corporation, General Mortgage Revenue (Insured; MBIA)	6.05	6/1/39	6,845,000	6,963,692
Arkansas—1.5%				
Independence County, PCR (Entergy Arkansas, Inc. Project)	5.00	1/1/21	3,000,000	2,976,810
California—17.3%				
ABAG Financial Authority for Nonprofit Corporations, Insured Revenue, COP (Odd Fellows Home of California)	6.00	8/15/24	5,000,000	5,056,000
California Department of Veteran Affairs, Home Purchase Revenue	5.20	12/1/28	2,950,000	2,951,298
California Educational Facilities Authority, Revenue (Mills College)	5.00	9/1/34	2,000,000	1,999,920
California Health Facilities Financing Authority, Revenue (Sutter Health)	6.25	8/15/35	2,500,000	2,674,125
California Housing Finance Agency, Home Mortgage Revenue	4.80	8/1/36	2,500,000	2,392,650
California Statewide Communities Development Authority, COP (Catholic Healthcare West)	6.50	7/1/10	3,545,000 ^a	3,856,747
California Statewide Communities Development Authority, COP (Catholic Healthcare West)	6.50	7/1/20	1,455,000	1,579,737
Chabot-Las Positas Community College District, GO (Insured; AMBAC)	0.00	8/1/32	6,000,000	1,692,480

STATEMENT OF INVESTMENTS (continued)

Long-Term Municipal Investments (continued)	Coupon Rate (%)	Maturity Date	Principal Amount (\$)	Value (\$)
California (continued)				
Del Mar Race Track Authority, Revenue	5.00	8/15/25	2,000,000	1,984,720
Golden State Tobacco Securitization Corporation, Tobacco Settlement Asset-Backed Bonds	7.80	6/1/13	3,000,000 ^a	3,631,200
Golden State Tobacco Securitization Corporation, Tobacco Settlement Asset-Backed Bonds	5.75	6/1/47	5,500,000	5,248,430
Colorado-9.1%				
Colorado Springs, HR	6.38	12/15/10	2,835,000 ^a	3,098,201
Colorado Springs, HR	6.38	12/15/30	2,890,000	3,049,066
University of Northern Colorado Board of Trustees, Auxiliary Facilities System Revenue (Insured; FSA)	5.00	6/1/35	11,000,000 ^{b,c}	11,356,565
District of Columbia-1.4%				
District of Columbia, Revenue (Catholic University America Project) (Insured; AMBAC)	5.63	10/1/09	1,605,000 ^a	1,685,394
District of Columbia, Revenue (Catholic University America Project) (Insured; AMBAC)	5.63	10/1/29	475,000	494,888
District of Columbia Housing Finance Agency, SFMR (Collateralized: FHA, FNMA, GNMA and GIC; Trinity Funding)	7.45	12/1/30	505,000	513,131
Florida-1.4%				
Orange County Health Facilities Authority, HR (Orlando Regional Healthcare System)	6.00	10/1/09	30,000 ^a	31,689
Orange County Health Facilities Authority, HR (Orlando Regional Healthcare System)	6.00	10/1/26	1,470,000	1,519,745

Long-Term Municipal Investments (continued)	Coupon Rate (%)	Maturity Date	Principal Amount (\$)	Value (\$)
Florida (continued)				
South Lake County Hospital District, Revenue (South Lake Hospital, Inc.)	5.80	10/1/34	1,095,000	1,121,663
Georgia—6%				
Milledgeville and Baldwin County Development Authority, Revenue (Georgia College and State University Foundation Property III, LLC Student Housing System Project)	5.25	9/1/14	1,000,000 ^a	1,103,270
Illinois—10.5%				
Chicago (Insured; FGIC)	6.13	7/1/10	3,685,000 ^a	3,967,971
Chicago (Insured; FGIC)	6.13	7/1/10	315,000 ^a	339,189
Illinois Development Finance Authority, Revenue (Community Rehabilitation Providers Facilities Acquisition Program)	8.75	3/1/10	55,000	55,498
Illinois Health Facilities Authority, Revenue (Advocate Health Care Network)	6.13	11/15/10	5,800,000 ^a	6,239,408
Illinois Health Facilities Authority, Revenue (OSF Healthcare System)	6.25	11/15/09	7,000,000 ^a	7,455,840
Illinois Health Facilities Authority, Revenue (Swedish American Hospital)	6.88	5/15/10	2,000,000 ^a	2,161,160
Indiana—2.6%				
Anderson, EDR and Improvement Bonds (Anderson University Project)	5.00	10/1/32	2,450,000	2,321,204
Franklin Township School Building Corporation, First Mortgage Bonds	6.13	7/15/10	2,500,000 ^a	2,716,900
Iowa—6%				
Coralville, Annual Appropriation Urban Renewal Tax Increment Revenue	5.00	6/1/47	1,275,000	1,223,184

STATEMENT OF INVESTMENTS (continued)

Long-Term Municipal Investments (continued)	Coupon Rate (%)	Maturity Date	Principal Amount (\$)	Value (\$)
Maryland—5.0%				
Maryland Economic Development Corporation, Student Housing Revenue (University of Maryland, College Park Project)	5.63	6/1/13	2,000,000 ^a	2,207,720
Maryland Health and Higher Educational Facilities Authority, Revenue (The Johns Hopkins University Issue)	6.00	7/1/09	7,000,000 ^a	7,369,320
Massachusetts—9.2%				
Massachusetts Bay Transportation Authority, Assessment Revenue	5.00	7/1/14	5,000,000 ^a	5,408,550
Massachusetts Development Finance Agency, SWDR (Dominion Energy Brayton Point Issue)	5.00	2/1/36	2,000,000	1,961,240
Massachusetts Health and Educational Facilities Authority, Healthcare System Revenue (Covenant Health Systems Obligated Group Issue)	6.00	7/1/31	2,500,000	2,625,650
Massachusetts Housing Finance Agency, SFHR	5.00	12/1/31	2,500,000	2,473,875
Massachusetts Industrial Finance Agency, Water Treatment Revenue (Massachusetts-American Hingham Project)	6.95	12/1/35	5,235,000	5,308,342
Michigan—3.6%				
Hancock Hospital Finance Authority, Mortgage Revenue (Portage Health) (Insured; MBIA)	5.45	8/1/08	2,175,000 ^a	2,207,908
Michigan Strategic Fund, SWDR (Genesee Power Station Project)	7.50	1/1/21	4,685,000	4,684,250
Minnesota—1.4%				
Minnesota Agricultural and Economic Development Board, Health Care System Revenue (Fairview Health Care Systems)	6.38	11/15/10	2,420,000 ^a	2,642,785
Minnesota Agricultural and Economic Development Board, Health Care System Revenue (Fairview Health Care Systems)	6.38	11/15/29	80,000	84,462

Long-Term Municipal Investments (continued)	Coupon Rate (%)	Maturity Date	Principal Amount (\$)	Value (\$)
Mississippi-3.2%				
Mississippi Business Finance Corporation, PCR (System Energy Resources, Inc. Project)	5.88	4/1/22	6,000,000	6,064,500
Missouri-4.0%				
Missouri Development Finance Board, Infrastructure Facilities Revenue (Branson Landing Project)	5.00	6/1/35	2,500,000	2,351,875
Missouri Health and Educational Facilities Authority, Health Facilities Revenue (BJC Health System)	5.25	5/15/32	2,500,000	2,557,875
Missouri Health and Educational Facilities Authority, Health Facilities Revenue (Saint Anthony's Medical Center)	6.25	12/1/10	2,500,000 ^a	2,721,225
Missouri Housing Development Commission, SFMR (Homeownership Loan Program) (Collateralized: FNMA and GNMA)	6.30	9/1/25	140,000	141,450
Nevada-2.2%				
Clark County, IDR (Southwest Gas Corporation Project) (Insured; AMBAC)	6.10	12/1/38	4,000,000	4,242,560
New Jersey-3.5%				
New Jersey Economic Development Authority, Cigarette Tax Revenue	5.50	6/15/31	1,610,000	1,657,608
New Jersey Turnpike Authority, Turnpike Revenue (Insured; AMBAC)	5.00	1/1/35	5,000,000	5,127,300
New Mexico-2.3%				
Farmington, PCR (Public Service Company of New Mexico San Juan Project)	6.30	12/1/16	3,000,000	3,065,010
New Mexico Mortgage Finance Authority, Single Family Mortgage Program (Collateralized: FHLMC and GNMA)	6.85	9/1/31	1,400,000	1,419,292

STATEMENT OF INVESTMENTS (continued)

Long-Term Municipal Investments (continued)	Coupon Rate (%)	Maturity Date	Principal Amount (\$)	Value (\$)
New York—2.3%				
Long Island Power Authority, Electric System General Revenue	5.00	9/1/27	1,500,000	1,540,545
New York State Dormitory Authority, Catholic Health Services of Long Island Obligated Group Revenue (Saint Francis Hospital Project)	5.00	7/1/27	2,930,000	2,884,585
North Carolina—3.1%				
Gaston County Industrial Facilities and Pollution Control Financing Authority, Exempt Facilities Revenue (National Gypsum Company Project)	5.75	8/1/35	1,500,000	1,529,625
North Carolina Eastern Municipal Power Agency, Power System Revenue	5.13	1/1/26	3,000,000	3,048,780
North Carolina Housing Finance Agency, Home Ownership Revenue	6.25	1/1/29	1,415,000	1,439,635
Ohio—5.0%				
Cuyahoga County, Hospital Improvement Revenue (The Metrohealth System Project)	6.13	2/15/09	5,000,000 ^a	5,223,150
Ohio Housing Finance Agency, Residential Mortgage Revenue (Collateralized; GNMA)	5.75	9/1/30	35,000	35,271
Rickenbacker Port Authority, Capital Funding Revenue (OASBO Expanded Asset Pooled)	5.38	1/1/32	4,090,000	4,354,582
Oklahoma—1.4%				
Oklahoma Development Finance Authority, Revenue (Saint John Health System)	6.00	2/15/09	1,875,000 ^a	1,955,044
Oklahoma Development Finance Authority, Revenue (Saint John Health System)	6.00	2/15/29	625,000	647,469

Long-Term Municipal Investments (continued)	Coupon Rate (%)	Maturity Date	Principal Amount (\$)	Value (\$)
Oregon—2.7%				
Oregon Department of Transportation, Highway User Tax Revenue	5.00	11/15/28	5,000,000	5,192,500
Pennsylvania—6.2%				
Pennsylvania Economic Development Financing Authority, RRR (Northampton Generating Project)	6.60	1/1/19	3,500,000	3,515,295
Sayre Health Care Facilities Authority, Revenue (Guthrie Health)	5.88	12/1/11	5,995,000 ^a	6,574,297
Sayre Health Care Facilities Authority, Revenue (Guthrie Health)	5.88	12/1/31	1,755,000	1,833,870
Rhode Island—1.2%				
Rhode Island Housing and Mortgage Finance Corporation, Homeownership Opportunity Revenue	4.70	10/1/32	2,405,000	2,278,016
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	5,005,600
Medical University of South Carolina, Hospital Facilities Revenue	6.00	7/1/09	2,500,000 ^a	2,627,500
Piedmont Municipal Power Agency, Electric Revenue	5.25	1/1/21	3,500,000	3,549,875
Securing Assets for Education, Installment Purchase Revenue (Berkeley County School District Project)	5.13	12/1/30	2,500,000	2,557,700
Tobacco Settlement Revenue Management Authority of South Carolina, Tobacco Settlement Asset-Backed Bonds	6.38	5/15/28	2,900,000	2,983,781

STATEMENT OF INVESTMENTS (continued)

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	3,944,063
Tennessee—1.1%				
Johnson City Health and Educational Facilities Board, Hospital First Mortgage Revenue (Mountain States Health Alliance)	5.50	7/1/36	2,000,000	2,026,860
Texas—11.5%				
Brazos River Harbor Navigation District, Revenue (The Dow Chemical Company Project)	4.95	5/15/33	2,000,000	1,952,480
Cities of Dallas and Fort Worth, Dallas/Fort Worth International Airport, Joint Revenue Improvement (Insured; FSA)	5.00	11/1/35	1,600,000	1,600,864
Gregg County Health Facilities Development Corporation, HR (Good Shepherd Medical Center Project) (Insured; Radian)	6.38	10/1/10	2,500,000 ^a	2,722,675
Harris County Health Facilities Development Corporation, HR (Memorial Hermann Healthcare System)	6.38	6/1/11	3,565,000 ^a	3,934,405
Port of Corpus Christi Authority of Nueces County, Revenue (Union Pacific Corporation Project)	5.65	12/1/22	4,500,000	4,647,735
Texas (Veterans Housing Assistance Program) (Collateralized; FHA)	6.10	6/1/31	7,000,000	7,207,130
Utah—.1%				
Utah Housing Finance Agency, SFMR (Collateralized; FHA)	6.00	1/1/31	170,000	173,220

Long-Term Municipal Investments (continued)	Coupon Rate (%)	Maturity Date	Principal Amount (\$)	Value (\$)
Vermont—1.1%				
Vermont Educational and Health Buildings Financing Agency, Revenue (Saint Michael's College Project)	6.00	10/1/28	1,500,000	1,635,825
Vermont Housing Finance Agency, SFHR (Insured; FSA)	6.40	11/1/30	460,000	465,198
Washington—2.7%				
Washington Higher Educational Facilities Authority, Revenue (Whitman College)	5.88	10/1/09	5,000,000 ^a	5,231,800
Wisconsin—5.0%				
Badger Tobacco Asset Securitization Corporation, Tobacco Settlement Asset-Backed Bonds	7.00	6/1/28	2,500,000	2,655,125
Wisconsin Health and Educational Facilities Authority, Revenue (Aurora Health Care, Inc.)	5.60	2/15/29	4,975,000	5,014,601
Wisconsin Health and Educational Facilities Authority, Revenue (Marshfield Clinic)	5.38	2/15/34	2,000,000	2,007,240
Wyoming—8%				
Sweetwater County, SWDR (FMC Corporation Project)	5.60	12/1/35	1,500,000	1,500,360
U.S. Related—9.5%				
Puerto Rico Highways and Transportation Authority, Transportation Revenue (Insured; MBIA)	5.00	7/1/38	8,000,000 ^{b,c}	8,167,120
Puerto Rico Highways and Transportation Authority, Transportation Revenue (Insured; MBIA)	5.00	7/1/38	10,000,000 ^{b,c}	10,208,900
Total Long-Term Municipal Investments (cost \$284,660,973)				296,413,160

STATEMENT OF INVESTMENTS (continued)

Short-Term Municipal Investments—1.4%	Coupon Rate (%)	Maturity Date	Principal Amount (\$)	Value (\$)
Florida—.1%				
Lee Memorial Health System Board of Directors, HR (Lee Memorial Health System)	4.09	10/1/07	200,000 ^d	200,000
Illinois—.1%				
Illinois Health Facilities Authority, Revenue (Central DuPage Health) (LOC; American National Bank and Trust Co. of Chicago)	4.07	10/1/07	200,000 ^d	200,000
Michigan—1.2%				
University of Michigan Regents, HR	4.00	10/1/07	2,200,000 ^d	2,200,000
Total Short-Term Municipal Investments (cost \$2,600,000)				2,600,000
Total Investments (cost \$287,260,973)			155.4%	299,013,160
Liabilities, Less Cash and Receivables			(3.4%)	(6,574,505)
Preferred Stock, at redemption value			(52.0%)	(100,000,000)
Net Assets Applicable to Common Shareholders			100.0%	192,438,655

^a 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.

^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, 2007, these securities amounted to \$29,732,585 or 15.5% of net assets applicable to Common Shareholders.

^c Collateral for floating rate borrowings.

^d Securities payable on demand. Variable interest rate—subject to periodic change.

Summary of Abbreviations

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
BIGI	Bond Investors Guaranty Insurance	BPA	Bond Purchase Agreement
CGIC	Capital Guaranty Insurance Company	CIC	Continental Insurance Company
CIFG	CDC Ixis Financial Guaranty	CMAC	Capital Market Assurance Corporation
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	FSA	Financial Security Assurance
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	MBIA	Municipal Bond Investors Assurance Insurance Corporation
MFHR	Multi-Family Housing Revenue	MFMR	Multi-Family Mortgage Revenue
PCR	Pollution Control Revenue	PILOT	Payment in Lieu of Taxes
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

Summary of Combined Ratings (Unaudited)

Fitch	or	Moody's	or	Standard & Poor's	Value (%) [†]
AAA		Aaa		AAA	26.9
AA		Aa		AA	16.9
A		A		A	29.6
BBB		Baa		BBB	20.3
B		B		B	1.2
F1		MIG1/P1		SP1/A1	1.0
Not Rated ^e		Not Rated ^e		Not Rated ^e	4.1
					100.0

[†] Based on total investments.

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

See notes to financial statements.

STATEMENT OF ASSETS AND LIABILITIES

September 30, 2007

	Cost	Value
Assets (\$):		
Investments in securities—See Statement of Investments	287,260,973	299,013,160
Cash		50,626
Interest receivable		4,901,603
Receivable for investment securities sold		3,464,171
Prepaid expenses		17,996
		307,447,556
Liabilities (\$):		
Due to The Dreyfus Corporation and affiliates—Note 3(b)		187,195
Payable for floating rate notes issued—Note 4		14,500,000
Interest and related expenses payable		165,948
Dividends payable to Preferred Shareholders		41,440
Commissions payable		14,828
Accrued expenses		99,490
		15,008,901
Auction Preferred Stock , Series A and B, par value \$.001 per share (4,000 shares issued and outstanding at \$25,000 per share liquidation preference)—Note 1		100,000,000
Net Assets applicable to Common Shareholders (\$)		192,438,655
Composition of Net Assets (\$):		
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		383,390
Accumulated net realized gain (loss) on investments		(5,345,305)
Accumulated net unrealized appreciation (depreciation) on investments		11,752,187
Net Assets applicable to Common Shareholders (\$)		192,438,655
Shares Outstanding		
(110 million shares authorized)		20,594,744
Net Asset Value , per share of Common Stock (\$)		9.34

See notes to financial statements.

STATEMENT OF OPERATIONS

Year Ended September 30, 2007

Investment Income (\$):	
Interest Income	17,559,553
Expenses:	
Management fee—Note 3(a)	2,073,939
Interest and related expenses	695,475
Commission fees—Note 1	266,407
Professional fees	78,304
Shareholders' reports	42,804
Shareholder servicing costs—Note 3(b)	34,320
Custodian fees—Note 3(b)	22,416
Registration fees	15,000
Directors' fees and expenses—Note 3(c)	6,193
Miscellaneous	43,723
Total Expenses	3,278,581
Investment Income—Net	14,280,972
Realized and Unrealized Gain (Loss) on Investments—Note 4 (\$):	
Net realized gain (loss) on investments	372,141
Net unrealized appreciation (depreciation) on investments	(7,360,730)
Net Realized and Unrealized Gain (Loss) on Investments	(6,988,589)
Dividends on Preferred Stocks	(3,613,991)
Net Increase in Net Assets Resulting from Operations	3,678,392

See notes to financial statements.

STATEMENT OF CHANGES IN NET ASSETS

	Year Ended September 30,	
	2007	2006
Operations (\$):		
Investment income–net	14,280,972	13,452,056
Net realized gain (loss) on investments	372,141	553,292
Net unrealized appreciation (depreciation) on investments	(7,360,730)	(804,643)
Dividends on Preferred Stocks	(3,613,991)	(3,125,231)
Net Increase (Decrease) in Net Assets Resulting from Operations	3,678,392	10,075,474
Dividends to Common Shareholders from (\$):		
Investment income–net	(10,130,835)	(10,624,089)
Capital Stock Transactions (\$):		
Dividends reinvested	51,799	–
Total Increase (Decrease) in Net Assets	(6,400,644)	(548,615)
Net Assets (\$):		
Beginning of Period	198,839,299	199,387,914
End of Period	192,438,655	198,839,299
Undistributed (distributions in excess of) investment income–net	383,390	(139,676)
Capital Share Transactions (Shares):		
Increase in Shares Outstanding as a Result of Dividends Reinvested	5,424	–

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, and with respect to common stock, market price data for the fund's common shares.

	Year Ended September 30,				
	2007	2006	2005	2004	2003
Per Share Data (\$):					
Net asset value, beginning of period	9.66	9.68	9.51	9.51	9.78
Investment Operations:					
Investment income—net ^a	.69	.65	.68	.69	.72
Net realized and unrealized gain (loss) on investments	(.34)	.00 ^b	.21	.09	(.24)
Dividends on Preferred Stock from investment income—net	(.18)	(.15)	(.10)	(.06)	(.07)
Total from Investment Operations	.17	.50	.79	.72	.41
Distributions to Common Shareholders:					
Dividends from investment income—net	(.49)	(.52)	(.62)	(.72)	(.68)
Net asset value, end of period	9.34	9.66	9.68	9.51	9.51
Market value, end of period	8.67	9.17	9.35	10.25	9.69
Total Return (%)^c	(.34)	3.86	(2.58)	14.08	8.48
Ratios/Supplemental Data (%):					
Ratio of total expenses to average net assets applicable to Common Stock ^d	1.67	1.61	1.48	1.40	1.42
Ratio of net investment income to average net assets applicable to Common Stock ^d	7.28	6.83	7.03	7.29	7.60
Ratio of total expenses to total average net assets	1.11	1.06	.99	.93	.94
Ratio of net investment income to total average net assets	4.82	4.53	4.67	4.81	5.02
Portfolio Turnover Rate	10.30	10.09	12.62	6.72	9.88
Asset coverage of Preferred Stock, end of period	292	300	299	295	294
Net Assets, net of Preferred Stock, end of period (\$ x 1,000)	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

^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 Does not reflect the effect of dividends to Preferred Stockholders.

See notes to financial statements.

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 to represent holders of APS on the fund’s Board of Directors.

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.

(b) Securities transactions and investment income: Securities transactions are recorded on a trade date basis. Realized gain and loss from securities transactions are recorded on the identified cost basis. Interest 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 gain, if any, are normally declared and paid annually, but the fund may make distributions on a more frequent basis to comply with the distribution requirements of the Internal Revenue Code of 1986, as amended (the “Code”). To the extent that net realized capital gain can be offset by capital loss carry-overs, it is the policy of the fund not to distribute such gain. Income and capital gain distributions are determined in accordance with income tax regulations, which may differ from U.S. generally accepted accounting principles.

For Common Shareholders who elect to receive their distributions in additional shares of the fund, in lieu of cash, such distributions will be reinvested at the lower of the market price or net asset value per share (but not less than 95% of the market price) as defined in the dividend reinvestment and cash purchase plan.

On September 27, 2007, the Board of Directors declared a cash dividend of \$.041 per share from investment income-net, payable on October 31, 2007 to Common Shareholders of record as of the close of business on October 11, 2007.

(d) Dividends to shareholders of APS: For APS, dividends are currently reset every 7 days for Series A and Series B. The dividend rates in effect at September 30, 2007 were as follows: Series A 3.80% and Series B 3.75%.

(e) Federal income taxes: It is the policy of the fund to continue to qualify as a regulated investment company, which can distribute tax exempt dividends, by complying with the applicable provisions of the Code and to make distributions of income and net realized capital gain sufficient to relieve it from substantially all federal income and excise taxes.

The FASB released 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. Adoption of FIN 48 is required for fiscal years beginning after December 15, 2006 and is to be applied to all open tax years as of the effective date. Management does not believe that the application of this standard will have a material impact on the financial statements of the fund.

At September 30, 2007, the components of accumulated earnings on a tax basis were as follows: undistributed tax exempt income \$430,197, accumulated capital losses \$5,448,823 and unrealized appreciation \$11,855,705.

The accumulated capital loss carryover is available to be applied against future net securities profits, if any, realized subsequent to September 30, 2007. If not 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 characters of distributions paid to shareholders during the fiscal periods ended September 30, 2007 and September 30, 2006, were as follows: tax exempt income \$13,744,826 and \$13,749,320, respectively.

During the period ended September 30, 2007, as a result of permanent book to tax differences, primarily due to the tax treatment for amortization adjustments, the fund decreased accumulated undistributed investment income-net by \$13,080 and increased net realized gain (loss) on investments by the same amount. Net assets and net asset value per share were not affected by this reclassification.

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 September 30, 2007, the fund did not borrow under the Facility.

NOTE 3—Management Fee and Other Transactions With Affiliates:

(a) Pursuant to a management agreement (“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 September 30, 2007, there was no expense reimbursement pursuant to the Agreement.

(b) The fund compensates Mellon Bank, N.A. (“Mellon”), an affiliate of the Manager, under a transfer agency agreement for providing personnel and facilities to perform transfer agency services for the fund. During the period ended September 30, 2007, the fund was charged \$18,715 pursuant to the transfer agency agreement.

The fund compensates Mellon under a custody agreement for providing custodial services for the fund. During the period ended September 30, 2007, the fund was charged \$22,416 pursuant to the custody agreement.

During the period ended September 30, 2007, the fund was charged \$4,579 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 \$167,968, custodian fees \$9,633, transfer agency fees \$7,183 and chief compliance officer fees \$2,411.

(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 September 30, 2007, amounted to \$32,811,950 and \$34,320,571, 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 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.

The fund accounts for the transfer of bonds to the trust as secured borrowings, with the securities transferred remaining in the fund's investments, and the related floating rate certificate securities reflected as fund liabilities under the caption, "Payable for floating rate notes issued" in the Statement of Assets and Liabilities.

At September 30, 2007, the cost of investments for federal income tax purposes was \$272,657,455; accordingly, accumulated net unrealized appreciation on investments was \$11,855,705, consisting of \$13,245,839 gross unrealized appreciation and \$1,390,134 gross unrealized depreciation.

REPORT OF INDEPENDENT REGISTERED
PUBLIC ACCOUNTING FIRM

**Shareholders and Board of Directors
Dreyfus Municipal Income, Inc.**

We have audited the accompanying statement of assets and liabilities of Dreyfus Municipal Income, Inc., including the statement of investments, as of September 30, 2007, and the related statement of operations for the year then ended, the statement of changes in net assets for each of the two years in the period then ended, and financial highlights for each of the years indicated therein. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. We were not engaged to perform an audit of the Fund's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and financial highlights assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our procedures included verification by examination of securities held by the custodian as of September 30, 2007 and confirmation of securities not held by the custodian by correspondence with others. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of Dreyfus Municipal Income, Inc. at September 30, 2007, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended, and the financial highlights for each of the indicated years, in conformity with U.S. generally accepted accounting principles.

Ernst + Young LLP

New York, New York
November 13, 2007

Dividend Reinvestment Plan

Under the fund's Dividend Reinvestment Plan (the "Plan"), a Common Shareholder who has fund shares registered in his name will have all dividends and distributions reinvested automatically by Mellon, as Plan agent (the "Agent"), in additional shares of the fund at the lower of prevailing market price or net asset value (but not less than 95% of market value at the time of valuation) unless such Common Shareholder elects to receive cash as provided below. If market price is equal to or exceeds net asset value, shares will be issued at net asset value. If net asset value exceeds market price or if a cash dividend only is declared, the Agent, as agent for the Plan participants, will buy fund shares in the open market. A Plan participant is not relieved of any income tax that may be payable on such dividends or distributions.

A Common Shareholder who owns fund shares registered in nominee name through his broker/dealer (i.e., in "street name") may not participate in the Plan, but may elect to have cash dividends and distributions reinvested by his broker/dealer in additional shares of the fund if such service is provided by the broker/dealer; otherwise such dividends and distributions will be treated like any other cash dividend or distribution.

A Common Shareholder who has fund shares registered in his name may elect to withdraw from the Plan at any time for a \$5.00 fee and thereby elect to receive cash in lieu of shares of the fund. Changes in elections must be in writing, sent to Mellon, c/o Mellon Investor Services, Shareholder Investment Plan, P.O. Box 358035, Pittsburgh, PA 15252-8035, should include the shareholder's name and address as they appear on the Agent's records and will be effective only if received more than ten business days prior to the record date for any distribution.

The Agent maintains all Common Shareholder accounts in the Plan and furnishes written confirmations of all transactions in the account. Shares in the account of each Plan participant will be held by the Agent in non-certificated form in the name of the participant, and each such participant's proxy will include those shares purchased pursuant to the Plan.

The fund pays the Agent's fee for reinvestment of dividends and distributions. Plan participants pay a pro rata share of brokerage commissions incurred with respect to the Agent's open market purchases in connection with the reinvestment of dividends or distributions.

The fund reserves the right to amend or terminate the Plan as applied to any dividend or distribution paid subsequent to notice of the change sent to Plan participants at least 90 days before the record date for such dividend or distribution. The Plan also may be amended or terminated by the Agent on at least 90 days' written notice to Plan participants.

Level Distribution Policy

The fund's dividend policy is to distribute substantially all of its net investment income to its shareholders on a monthly basis. In order to provide shareholders with a more consistent yield to the current trading price of shares of Common Stock of the fund, the fund may at times pay out less than the entire amount of net investment income earned in any particular month and may at times in any month pay out such accumulated but undistributed income in addition to net investment income earned in that month. As a result, the dividends paid by the fund for any particular month may be more or less than the amount of net investment income earned by the fund during such month. The fund's current accumulated but undistributed net investment income, if any, is disclosed in the Statement of Assets and Liabilities and Notes to Financial Statements, which comprises part of the Financial Information included in this report.

Benefits and Risks of Leveraging

The fund utilizes leverage to seek to enhance the yield and net asset value of its Common Stock. These objectives cannot be achieved in all interest rate environments. To leverage, the fund issues Preferred stock, which pays dividends at prevailing short-term interest rates, and invests the proceeds in long-term municipal bonds. The interest earned on these investments is paid to Common Shareholders in the form of div-

idends, and the value of these portfolio holdings is reflected in the per share net asset value of the fund's common stock. In order to benefit Common shareholders, the yield curve must be positively sloped: that is, short-term interest rates must be lower than long-term interest rates. At the same time, a period of generally declining interest rates will benefit Common Shareholders. If either of these conditions change, then the risk of leveraging will begin to outweigh the benefits.

Supplemental Information

During the period ended September 30, 2007, there were: (i) no material changes in the fund's investment objectives or fundamental investment policies, (ii) no changes in the fund's charter or by-laws that would delay or prevent a change of control of the fund, (iii) no material changes in the principal risk factors associated with investment in the fund, and (iv) no change in the person primarily responsible for the day-to-day management of the fund's portfolio.

IMPORTANT TAX INFORMATION (Unaudited)

In accordance with federal tax law, the fund hereby designates all the dividends paid from investment income-net during its fiscal year ended September 30, 2007 as “exempt-interest dividends” (not generally subject to regular federal income tax). As required by federal tax law rules, shareholders will receive notification of their portion of the fund’s taxable ordinary dividends (if any) and capital gains distributions (if any) paid for the 2007 calendar year on Form 1099-DIV and their portion of the fund’s tax-exempt dividends paid for 2007 calendar year on Form 1099-INT, both which will be mailed by January 31, 2008.

PROXY RESULTS (Unaudited)

Holders of Auction Preferred Stock (“APS”) voted on the following proposal presented at the annual shareholders’ meeting held on May 18, 2007 as follows:

	Shares	
	For	Authority Withheld
To elect one Class II Director:†		
Whitney I. Gerard	3,531	0

†† The term of the Class II Director expires in 2007.

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

At a meeting of the fund's Board of Directors held on July 19 and 20, 2007, the Board considered the re-approval for an annual period (through August 31, 2008) of the fund's Management Agreement with Dreyfus, pursuant to which Dreyfus provides the fund with investment advisory and administrative services. The Board members, none of whom are "interested persons" (as defined in the Investment Company Act of 1940, as amended) of the fund were assisted in their review by independent legal counsel and met with counsel in executive session separate from representatives of Dreyfus.

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

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

Comparative Analysis of the Fund's Performance and Management Fee and Expense Ratio. The Board members reviewed the fund's performance and comparisons to a group of closed-end leveraged general municipal debt funds (the "Performance Group") and to a larger universe of funds, consisting of all closed-end leveraged general municipal debt funds (the "Performance Universe"), selected and provided by Lipper, Inc., an independent provider of investment company data. The Board was provided with a description of the methodology Lipper used

to select the Performance Group and Performance Universe, as well as the Expense Group and Expense Universe (discussed below). The Board members discussed the results of the comparisons for various periods ended May 31, 2007. The Board noted that the fund's yield for one-year periods ended May 31st for 1998 - 2007 variously was above, at and below the Performance Group and Performance Universe medians, measured on both a net asset value basis and a market price basis. The Board members noted that the fund's total return performance based on net asset value variously was above or at the Performance Group and Performance Universe medians for all periods (except the one-year periods), while market price total return was variously above and below the Performance Group and below the Performance Universe medians for the periods. Dreyfus also provided a comparison of the fund's calendar year total returns to the returns of its Lipper category average for the prior ten years.

The Board members also discussed the fund's management fee and expense ratio and reviewed the range of management fees and expense ratios of a comparable group of funds (the "Expense Group") and a broader group of funds (the "Expense Universe"), each selected and provided by Lipper. The Board members noted that the fund's management fee was higher than the Expense Group and Expense Universe medians based on either common shares alone or common and preferred shares together. The fund's expense ratios based on common shares alone and based on common and preferred shares together were higher than Expense Group and Expense Universe medians.

Representatives of Dreyfus noted the other closed-end funds managed by Dreyfus or its affiliates with similar investment objectives, policies and strategies and included in the fund's Lipper category (the "Similar Funds"), and stated that there were no other funds or accounts managed by Dreyfus or its affiliates with similar investment objectives, policies and strategies as the fund. The Board members considered the relevance of the fee information provided for the Similar Funds to evaluate the appropriateness and reasonableness of the fund's management fee.

Analysis of Profitability and Economies of Scale. Dreyfus' representatives reviewed the dollar amount of expenses allocated and profit received by Dreyfus and the method used to determine such expenses and profit. The Board considered information, previously provided and discussed, prepared by an independent consulting firm regarding Dreyfus' approach to allocating costs to, and determining the profitability of, individual funds and the entire Dreyfus mutual fund complex. The Board members also considered that the methodology had also been reviewed by an independent registered public accounting firm which, like the consultant, found the methodology to be reasonable. The consulting firm also analyzed where any economies of scale might emerge in connection with the management of the fund. The Board members evaluated the profitability analysis in light of the relevant circumstances for the fund and the extent to which economies of scale would be realized if the fund grows and whether fee levels reflect these economies of scale for the benefit of fund investors. The Board members also considered potential benefits to Dreyfus from acting as investment adviser and noted that there were no soft dollar arrangements with respect to trading the fund's investments.

It was noted that the Board members should consider Dreyfus' profitability with respect to the fund as part of their evaluation of whether the fees under the Management Agreement bear a reasonable relationship to the mix of services provided by Dreyfus, including the nature, extent and quality of such services. It was noted that a discussion of economies of scale is predicated on increasing assets and that because the fund is a closed-end fund without daily inflows and outflows of capital there were not at this time significant economies of scale to be realized by Dreyfus in managing the fund's assets. It also was noted that the profitability percentage for managing the fund was within ranges determined by appropriate court cases to be reasonable given the services rendered and generally superior service levels provided.

At the conclusion of these discussions, the Board agreed that it had been furnished with sufficient information to make an informed business decision with respect to continuation of the Management Agreement. Based on the discussions and considerations as described above, the Board made the following conclusions and determinations.

- The Board concluded that the nature, extent and quality of the services provided by Dreyfus are adequate and appropriate.
- The Board was generally satisfied with the fund's overall performance.
- The Board concluded that the fee paid by the fund to Dreyfus was reasonable in light of the services provided, comparative performance, expense and management fee information, costs of the services provided and profits to be realized and benefits derived or to be derived by Dreyfus from its relationship with the fund.
- The Board determined that the economies of scale which may accrue to Dreyfus and its affiliates in connection with the management of the fund had been adequately considered by Dreyfus in connection with the management fee rate charged to the fund and that, to the extent in the future it were determined that material economies of scale had not been shared with the fund, the Board would seek to have those economies of scale shared with the fund.

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

BOARD MEMBERS INFORMATION (Unaudited)

Joseph S. DiMartino (63) **Chairman of the Board (1995)**

Principal Occupation During Past 5 Years:

- Corporate Director and Trustee

Other Board Memberships and Affiliations:

- The Muscular Dystrophy Association, Director
- Century Business Services, Inc., a provider of outsourcing functions for small and medium size companies, Director
- The Newark Group, a provider of a national market of paper recovery facilities, paperboard mills and paperboard converting plants, Director
- Sunair Services Corporation, a provider of certain outdoor-related services to homes and businesses, Director

No. of Portfolios for which Board Member Serves: 163

Clifford L. Alexander, Jr. (74) **Board Member (2003)**

Principal Occupation During Past 5 Years:

- President of Alexander & Associates, Inc., a management consulting firm (January 1981-present)
- Chairman of the Board of Moody's Corporation (October 2000-October 2003)

Other Board Memberships and Affiliations:

- Mutual of America Life Insurance Company, Director

No. of Portfolios for which Board Member Serves: 53

David W. Burke (71) **Board Member (1994)**

Principal Occupation During Past 5 Years:

- Corporate Director and Trustee

Other Board Memberships and Affiliations:

- John F. Kennedy Library Foundation, Director

No. of Portfolios for which Board Member Serves: 88

Whitney I. Gerard (72)
Board Member (1998)

Principal Occupation During Past 5 Years:

- Partner of Chadbourne & Parke LLP

No. of Portfolios for which Board Member Serves: 28

George L. Perry (73)
Board Member (1989)

Principal Occupation During Past 5 Years:

- Economist and Senior Fellow at Brookings Institution

No. of Portfolios for which Board Member Serves: 26

Once elected all Board Members serve for an indefinite term, but achieve Emeritus status upon reaching age 80. The address of the Board Members and Officers is in c/o The Dreyfus Corporation, 200 Park Avenue, New York, New York 10166. Additional information about the Board Members is available in the fund's Statement of Additional Information which can be obtained from Dreyfus free of charge by calling this toll free number: 1-800-554-4611.

Lucy Wilson Benson, Emeritus Board Member

Arthur A. Hartman, Emeritus Board Member

OFFICERS OF THE FUND (Unaudited)

J. DAVID OFFICER, President since December 2006.

Chief Operating Officer, Vice Chairman and a Director of the Manager, and an officer of 82 investment companies (comprised of 163 portfolios) managed by the Manager. He is 59 years old and has been an employee of the Manager since April 1998.

PHILLIP N. MAISANO, Executive Vice President since July 2007.

Chief Investment Officer, Vice Chair and a director of the Manager, and an officer of 82 investment companies (comprised of 163 portfolios) managed by the Manager. Mr. Maisano also is an officer and/or Board member of certain other investment management subsidiaries of The Bank of New York Mellon Corporation, each of which is an affiliate of the Manager. He is 60 years old and has been an employee of the Manager since November 2006. Prior to joining the Manager, Mr. Maisano served as Chairman and Chief Executive Officer of EACM Advisors, an affiliate of the Manager, since August 2004, and served as Chief Executive Officer of Evaluation Associates, a leading institutional investment consulting firm, from 1988 until 2004.

JOSEPH P. DARCY, Executive Vice President since March 2000.

Executive Vice President of the Fund, Senior Portfolio Manager – Dreyfus Municipal Securities, and an officer of 1 other investment company (comprised of 1 portfolio) managed by the Manager. He is 49 years old and has been an employee of the Manager since May 1994.

MICHAEL A. ROSENBERG, Vice President and Secretary since August 2005.

Associate General Counsel of the Manager, and an officer of 83 investment companies (comprised of 180 portfolios) managed by the Manager. He is 47 years old and has been an employee of the Manager since October 1991.

JAMES BITETTO, Vice President and Assistant Secretary since August 2005.

Associate General Counsel and Assistant Secretary of the Manager, and an officer of 83 investment companies (comprised of 180 portfolios) managed by the Manager. He is 41 years old and has been an employee of the Manager since December 1996.

JONI LACKS CHARATAN, Vice President and Assistant Secretary since August 2005.

Associate General Counsel of the Manager, and an officer of 83 investment companies (comprised of 180 portfolios) managed by the Manager. She is 51 years old and has been an employee of the Manager since October 1988.

JOSEPH M. CHIOFFI, Vice President and Assistant Secretary since August 2005.

Associate General Counsel of the Manager, and an officer of 83 investment companies (comprised of 180 portfolios) managed by the Manager. He is 45 years old and has been an employee of the Manager since June 2000.

JANETTE E. FARRAGHER, Vice President and Assistant Secretary since August 2005.

Associate General Counsel of the Manager, and an officer of 83 investment companies (comprised of 180 portfolios) managed by the Manager. She is 44 years old and has been an employee of the Manager since February 1984.

JOHN B. HAMMALIAN, Vice President and Assistant Secretary since August 2005.

Associate General Counsel of the Manager, and an officer of 83 investment companies (comprised of 180 portfolios) managed by the Manager. He is 44 years old and has been an employee of the Manager since February 1991.

ROBERT R. MULLERY, Vice President and Assistant Secretary since August 2005.

Associate General Counsel of the Manager, and an officer of 83 investment companies (comprised of 180 portfolios) managed by the Manager. He is 55 years old and has been an employee of the Manager since May 1986.

JEFF PRUSNOFSKY, Vice President and Assistant Secretary since August 2005.

Associate General Counsel of the Manager, and an officer of 83 investment companies (comprised of 180 portfolios) managed by the Manager. He is 42 years old and has been an employee of the Manager since October 1990.

JAMES WINDELS, Treasurer since November 2001.

Director – Mutual Fund Accounting of the Manager, and an officer of 83 investment companies (comprised of 180 portfolios) managed by the Manager. He is 49 years old and has been an employee of the Manager since April 1985.

ROBERT ROBOL, Assistant Treasurer since August 2005.

Senior Accounting Manager – Money Market and Municipal Bond Funds of the Manager, and an officer of 83 investment companies (comprised of 180 portfolios) managed by the Manager. He is 43 years old and has been an employee of the Manager since October 1988.

ROBERT SALVILOLO, Assistant Treasurer since May 2007.

Senior Accounting Manager – Equity Funds of the Manager, and an officer of 83 investment companies (comprised of 180 portfolios) managed by the Manager. He is 40 years old and has been an employee of the Manager since June 1989.

ROBERT SVAGNA, Assistant Treasurer since December 2005.

Senior Accounting Manager – Equity Funds of the Manager, and an officer of 83 investment companies (comprised of 180 portfolios) managed by the Manager. He is 40 years old and has been an employee of the Manager since November 1990.

GAVIN C. REILLY, Assistant Treasurer since December 2005.

Tax Manager of the Investment Accounting and Support Department of the Manager, and an officer of 83 investment companies (comprised of 180 portfolios) managed by the Manager. He is 39 years old and has been an employee of the Manager since April 1991.

JOSEPH W. CONNOLLY, Chief Compliance Officer since October 2004.

Chief Compliance Officer of the Manager and The Dreyfus Family of Funds (83 investment companies, comprised of 180 portfolios). From November 2001 through March 2004, Mr. Connolly was first Vice-President, Mutual Fund Servicing for Mellon Global Securities Services. In that capacity, Mr. Connolly was responsible for managing Mellon's Custody, Fund Accounting and Fund Administration services to third-party mutual fund clients. He is 50 years old and has served in various capacities with the Manager since 1980, including manager of the firm's Fund Accounting Department from 1997 through October 2001.

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

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

Robert R. Mullery

Jeff Prusnofsky

Treasurer

James Windels

Assistant Treasurers

Robert Robol

Robert Svagna

Gavin C. Reilly

Robert Salviolo

Chief Compliance Officer

Joseph W. Connolly

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

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)

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(g) 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.

For More Information

**Dreyfus
Municipal Income, Inc.**
200 Park Avenue
New York, NY 10166

Manager

The Dreyfus Corporation
200 Park Avenue
New York, NY 10166

Custodian

Mellon Bank, N.A.
One Mellon Bank Center
Pittsburgh, PA 15258

**Transfer Agent &
Dividend Disbursing Agent
and Registrar
(Common Stock)**

Mellon Bank, N.A.
85 Challenger Road
Ridgefield Park, NJ 07660

Ticker Symbol: DMF

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.

