

DREYFUS MUNICIPAL INCOME INC  
Form N-CSR  
May 24, 2007  
**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

FORM N-CSR  
CERTIFIED SHAREHOLDER REPORT OF REGISTERED MANAGEMENT  
INVESTMENT COMPANIES  
Investment Company Act file number 811-05652  
DREYFUS MUNICIPAL INCOME, INC.  
(Exact name of Registrant as specified in charter)

c/o The Dreyfus Corporation  
200 Park Avenue  
New York, New York 10166  
(Address of principal executive offices) (Zip code)

Mark N. Jacobs, Esq.  
200 Park Avenue  
New York, New York 10166  
(Name and address of agent for service)

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

|                           |         |
|---------------------------|---------|
| Date of fiscal year end:  | 9/30    |
| Date of reporting period: | 3/31/07 |

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**FORM N-CSR**

**Item 1. Reports to Stockholders.**

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**Dreyfus Municipal Income, Inc.**

**Protecting Your Privacy Our Pledge to You**

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

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

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

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

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

**THE FUND DOES NOT SHARE NONPUBLIC**

**PERSONAL INFORMATION WITH ANYONE, EXCEPT AS PERMITTED BY LAW.**

***Thank you for this opportunity to serve you.***

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

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

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**Dreyfus**

**Municipal Income, Inc.**

# The Fund

## A LETTER FROM THE CEO

Dear Shareholder:

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We are pleased to present this semiannual report for Dreyfus Municipal Income, Inc., covering the six-month period from October 1, 2006, through March 31, 2007.

Recent volatility in U.S. stock and bond markets has suggested to us that investors' appetite for risk may be waning. Until late February 2007, the appetite for risk was relatively high, even in market sectors where the danger of fundamental deterioration was clear, such as sub-prime mortgages. While overall valuation levels within the broad stock and bond markets seemed appropriate to us, prices of many lower-quality assets did not fully compensate investors for the risks they typically entail.

Heightened volatility sometimes signals a shift in the economy, but we do not believe this currently is the case. We continue to expect a mid-cycle economic slowdown and a monetary policy of prolonged pause and eventual ease. Tightness in the labor market should ease, with the unemployment rate driven somewhat higher by housing-related lay-offs. While we believe there will be a gradual moderation of both CPI and PCE core inflation a measure of underlying long-term inflation that generally excludes energy and food products we expect the Federal Reserve Board to remain vigilant against inflation risks as it continues to closely monitor upcoming data. As always, your financial advisor can help you identify the investments that may help you potentially profit from these trends and maintain an asset allocation strategy that's suited for your needs.

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.

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### DISCUSSION OF FUND PERFORMANCE

Joseph P. Darcy, Senior Portfolio Manager

#### **How did Dreyfus Municipal Income perform during the reporting period?**

For the six-month period ended March 31, 2007, the fund achieved a total return of 1.98% (on a net asset value basis).<sup>1</sup> During the same period, the fund provided income dividends of \$0.25 per share, which is equal to a distribution rate of 5.09%.<sup>2</sup>

Despite bouts of heightened market volatility stemming from investors' occasional inflation-related concerns, municipal bonds fared relatively well in an environment of moderate economic growth and stable short-term interest rates. The fund's income-oriented investment posture enabled it to avoid the full brunt of market volatility, but prevented the fund from participating fully in market rallies. The fund's monthly dividend distribution remained unchanged during the reporting period.

#### **What is the fund's investment approach?**

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

We have constructed a portfolio by looking for income opportunities through analysis of each bond's structure, including paying close attention to a bond's yield, maturity and early redemption features. Over time, many of the fund's relatively higher yielding bonds mature or are

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DISCUSSION OF FUND PERFORMANCE *(continued)*

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

**What other factors influenced the fund's performance?**

Waning inflation concerns during the fall of 2006 led to a sustained market rally as investors responded positively to reports of softening housing markets, moderating economic growth and falling energy prices. The Federal Reserve Board (the "Fed") apparently agreed with a more benign inflation outlook, as it held short-term interest rates steady throughout the reporting period, citing the likelihood that a slower economy would relieve prevailing inflationary pressures.

However, near the end of February, turmoil in overseas equity markets and reports of rising delinquencies among U.S. sub-prime mortgage holders sparked fears that the U.S. and global economies might slow more severely than expected. In late March, the Fed commented that the risk of a reacceleration of inflation represented a greater concern than the risk of recession, causing investors to push back their expectations of an eventual rate cut. As a result, municipal bonds ended the reporting period with only slightly higher prices than where they began.

The fund proved to be well positioned for a more volatile market, as the fund's core holdings of seasoned, income-oriented municipal bonds generally held up better than the general market during market declines. However, the same positioning prevented the fund from participating as strongly as the general market during rallies. In addition, narrowing yield differences along the market's maturity range reduced

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the effectiveness of the fund's leveraging strategy, which seeks to borrow at low short-term rates and reinvest in longer-term municipal bonds at higher rates.

Yield differences along the market's credit rating spectrum also hovered near historically narrow levels during the reporting period. Therefore, it made little sense to us to incur the risks that lower-rated securities typically entail. We focused instead on income-oriented, investment-grade municipal bonds with maturities in the 20- to 25-year range, which provided most of the yield offered by longer-term bonds but with relatively less interest-rate risk. We emphasized bonds issued to finance health care facilities, which appeared to offer better values than other areas of the market.

**What is the fund's current strategy?**

We have maintained the fund's income-oriented investment posture. Indeed, since many of the fund's holdings were purchased at higher yields than currently are available from comparable securities, it has made little sense to us to replace existing holdings with newly issued bonds. As the U.S. economy slows and investors become more sensitive to risk, we believe that the fund is positioned for such an environment because of its continued emphasis on income-oriented bonds selling at modest premiums to their face values. Of course, we are prepared to adjust our strategies as economic and market conditions evolve.

April 16, 2007

<sup>1</sup> Total return includes reinvestment of dividends and any capital gains paid, based upon net asset value per share. Past performance is no guarantee of future results. Market price per share, net asset

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value per share and investment return fluctuate. Income may be subject to state and local taxes, and some income may be subject to the federal alternative minimum tax (AMT) for certain investors. Capital gains, if any, are fully taxable.

<sup>2</sup> Distribution rate per share is based upon dividends per share paid from net investment income during the period, divided by the market price per share at the end of the period.

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**STATEMENT OF INVESTMENTS**

March 31, 2007 (Unaudited)

| <b>Long-Term Municipal Investments</b> $\square$ <b>157.8%</b>  | Coupon<br>Rate (%) | Maturity<br>Date | Principal<br>Amount (\$) | Value (\$) |
|---|--------------------|------------------|--------------------------|------------|
| <b>Alabama</b> $\square$ <b>6.5%</b>  |                    |                  |                          |            |
| Jefferson County,<br>Sewer Revenue Capital<br>Improvement Warrants (Insured;<br>FGIC)                                 |                    |                  |                          |            |
|   | 5.75               | 2/1/09           | 7,500,000 <sup>a</sup>   | 7,846,350  |
| The Board of Trustees of the<br>University of Alabama, HR<br>(University of Alabama at<br>Birmingham) (Insured; MBIA) |                    |                  |                          |            |
|   | 5.88               | 9/1/10           | 4,620,000 <sup>a</sup>   | 4,990,616  |
| <b>Alaska</b> $\square$ <b>3.6%</b>   |                    |                  |                          |            |
| Alaska Housing Finance<br>Corporation, General Mortgage<br>Revenue (Insured; MBIA)                                    |                    |                  |                          |            |
|   | 6.05               | 6/1/39           | 6,845,000                | 7,021,190  |
| <b>Arkansas</b> $\square$ <b>1.6%</b>   |                    |                  |                          |            |
| Independence County,<br>PCR (Entergy Arkansas, Inc.<br>Project)   |                    |                  |                          |            |
|   | 5.00               | 1/1/21           | 3,000,000                | 3,065,850  |
| <b>California</b> $\square$ <b>16.3%</b>  |                    |                  |                          |            |
| ABAG Financial Authority for<br>Nonprofit Corporations,<br>Insured Revenue, COP (Odd<br>Fellows Home of California)   |                    |                  |                          |            |
|   | 6.00               | 8/15/24          | 5,000,000                | 5,080,100  |
| California Department of Veteran<br>Affairs, Home Purchase Revenue  |                    |                  |                          |            |
|   | 5.20               | 12/1/28          | 2,950,000                | 2,951,947  |
| California Educational Facilities<br>Authority, Revenue (Mills<br>College)  |                    |                  |                          |            |
|   | 5.00               | 9/1/34           | 2,000,000                | 2,077,900  |
| California Health Facilities<br>Financing Authority, Revenue<br>(Sutter Health)                                       |                    |                  |                          |            |
|   | 6.25               | 8/15/35          | 2,500,000                | 2,718,750  |
| California Housing Finance Agency,<br>Home Mortgage Revenue   |                    |                  |                          |            |
|   | 4.80               | 8/1/36           | 2,500,000                | 2,491,650  |

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|  |      |        |                        |           |
|--|------|--------|------------------------|-----------|
| California Statewide Communities<br>Development Authority, COP<br>(Catholic Healthcare West) | 6.50 | 7/1/10 | 3,545,000 <sup>a</sup> | 3,892,091 |
| California Statewide Communities<br>Development Authority, COP<br>(Catholic Healthcare West) | 6.50 | 7/1/20 | 1,455,000              | 1,577,831 |
| Chabot-Las Positas Community<br>College District, GO (Insured;<br>AMBAC)                     | 0.00 | 8/1/32 | 6,000,000              | 1,746,180 |

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| <b>Long-Term Municipal<br/>Investments (continued)</b>   | Coupon<br>Rate (%) | Maturity<br>Date | Principal<br>Amount (\$)  | Value (\$) |
|--|--------------------|------------------|---------------------------|------------|
| <b>California (continued)</b>  |                    |                  |                           |            |
| Del Mar Race Track Authority,<br>Revenue   | 5.00               | 8/15/25          | 3,500,000                 | 3,615,885  |
| Golden State Tobacco<br>Securitization Corporation,<br>Tobacco Settlement<br>Asset-Backed Bonds                | 7.80               | 6/1/13           | 3,000,000 <sup>a</sup>    | 3,667,680  |
| Golden State Tobacco<br>Securitization Corporation,<br>Tobacco Settlement<br>Asset-Backed Bonds                | 5.75               | 6/1/47           | 2,500,000                 | 2,659,125  |
| <b>Colorado 10.3%</b>  |                    |                  |                           |            |
| Colorado Springs,<br>HR  | 6.38               | 12/15/10         | 2,835,000 <sup>a</sup>    | 3,117,508  |
| Colorado Springs,<br>HR  | 6.38               | 12/15/30         | 2,890,000                 | 3,131,951  |
| Denver City and County,<br>Special Facilities Airport<br>Revenue (United Airlines<br>Project)                  | 6.88               | 10/1/32          | 2,480,000                 | 2,535,800  |
| University of Northern Colorado<br>Board of Trustees, Auxiliary<br>Facilities System Revenue<br>(Insured; FSA) | 5.42               | 6/1/35           | 11,000,000 <sup>b,c</sup> | 11,590,920 |
| <b>District of Columbia 1.4%</b>   |                    |                  |                           |            |
| District of Columbia,<br>Revenue (Catholic University<br>America Project) (Insured;<br>AMBAC)                  | 5.63               | 10/1/29          | 2,080,000                 | 2,184,166  |
| District of Columbia Housing   |                    |                  |                           |            |

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|  |      |         |                     |           |
|--|------|---------|---------------------|-----------|
| Finance Agency, SFMR<br>(Collateralized: FHA, FNMA,<br>GNMA and GIC; Trinity Funding)    | 7.45 | 12/1/30 | 580,000             | 589,611   |
| <b>Florida 1.4%</b>  |      |         |                     |           |
| Orange County Health Facilities<br>Authority, HR (Orlando<br>Regional Healthcare System) | 6.00 | 10/1/09 | 30,000 <sup>a</sup> | 31,905    |
| Orange County Health Facilities<br>Authority, HR (Orlando<br>Regional Healthcare System) | 6.00 | 10/1/26 | 1,470,000           | 1,546,028 |

**The Fund**

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STATEMENT OF INVESTMENTS (Unaudited) (continued)

| <b>Long-Term Municipal<br/>Investments (continued)</b>  | Coupon<br>Rate (%) | Maturity<br>Date | Principal<br>Amount (\$) | Value (\$) |
|---|--------------------|------------------|--------------------------|------------|
| <b>Florida (continued)</b>  |                    |                  |                          |            |
| South Lake County Hospital<br>District, Revenue (South Lake<br>Hospital, Inc.)  | 5.80               | 10/1/34          | 1,095,000                | 1,138,614  |
| <b>Georgia 1.5%</b>   |                    |                  |                          |            |
| Milledgeville and Baldwin County<br>Development Authority, Revenue<br>(Georgia College and State<br>University Foundation Property<br>III, LLC Student Housing<br>System Project) | 5.25               | 9/1/19           | 1,000,000                | 1,063,780  |
| <b>Illinois 10.3%</b>   |                    |                  |                          |            |
| Chicago<br>(Insured; FGIC)  | 6.13               | 7/1/10           | 3,685,000 <sup>a</sup>   | 3,995,461  |
| Chicago<br>(Insured; FGIC)  | 6.13               | 7/1/10           | 315,000 <sup>a</sup>     | 341,539    |
| Illinois Development Finance<br>Authority, Revenue (Community<br>Rehabilitation Providers<br>Facilities Acquisition Program)  | 8.75               | 3/1/10           | 55,000                   | 55,585     |
| Illinois Health Facilities<br>Authority, Revenue (Advocate<br>Health Care Network)  | 6.13               | 11/15/10         | 5,800,000 <sup>a</sup>   | 6,273,802  |
| Illinois Health Facilities<br>Authority, Revenue (OSF   |                    |                  |                          |            |

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|  |      |          |                        |           |
|--|------|----------|------------------------|-----------|
| Healthcare System)<br>Illinois Health Facilities<br>Authority, Revenue (Swedish<br>American Hospital)  | 6.25 | 11/15/09 | 7,000,000 <sup>a</sup> | 7,515,830 |
| <b>Indiana</b> 2.1%  |      |          |                        |           |
| Anderson,<br>EDR and Improvement Bonds<br>(Anderson University Project)<br>Franklin Township School Building<br>Corporation, First Mortgage<br>Bonds | 5.00 | 10/1/32  | 1,450,000              | 1,471,098 |
|  | 6.13 | 7/15/10  | 2,500,000 <sup>a</sup> | 2,734,900 |
| <b>Kansas</b> 1.3%   |      |          |                        |           |
| Unified Government of Wyandotte<br>County/Kansas City, Tax-Exempt<br>Sales Tax Special Tax<br>Obligation Revenue<br>(Redevelopment Project Area B)   | 5.00 | 12/1/20  | 2,500,000              | 2,604,250 |

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| <b>Long-Term Municipal<br/>Investments (continued)</b>  | Coupon<br>Rate (%) | Maturity<br>Date | Principal<br>Amount (\$) | Value (\$) |
|---|--------------------|------------------|--------------------------|------------|
| <b>Maryland</b> 4.9%  |                    |                  |                          |            |
| Maryland Economic Development<br>Corporation, Student Housing<br>Revenue (University of<br>Maryland, College Park Project)                                      | 5.63               | 6/1/13           | 2,000,000 <sup>a</sup>   | 2,215,760  |
| Maryland Health and Higher<br>Educational Facilities<br>Authority, Revenue (The Johns<br>Hopkins University Issue)  | 6.00               | 7/1/09           | 7,000,000 <sup>a</sup>   | 7,431,620  |
| <b>Massachusetts</b> 9.1%   |                    |                  |                          |            |
| Massachusetts Bay Transportation<br>Authority, Assessment Revenue<br>Massachusetts Development Finance<br>Agency, SWDR (Dominion Energy<br>Brayton Point Issue) | 5.00               | 7/1/14           | 5,000,000 <sup>a</sup>   | 5,401,650  |
|   | 5.00               | 2/1/36           | 2,000,000                | 2,053,920  |
| Massachusetts Health and<br>Educational Facilities<br>Authority, Healthcare System<br>Revenue (Covenant Health<br>Systems Obligated Group Issue)                | 6.00               | 7/1/31           | 2,500,000                | 2,702,850  |
| Massachusetts Housing Finance<br>Agency, SFHR   | 5.00               | 12/1/31          | 2,500,000                | 2,555,425  |



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|  |      |          |                        |           |
|--|------|----------|------------------------|-----------|
| Massachusetts Industrial Finance Agency, Water Treatment Revenue (Massachusetts-American Hingham Project)        | 6.95 | 12/1/35  | 5,235,000              | 5,308,604 |
| <b>Michigan</b> 3.5%   |      |          |                        |           |
| Hancock Hospital Finance Authority, Mortgage Revenue (Portgag Health) (Insured; MBIA)                            | 5.45 | 8/1/08   | 2,200,000 <sup>a</sup> | 2,249,456 |
| Michigan Strategic Fund, SWDR (Genesee Power Station Project)  | 7.50 | 1/1/21   | 4,685,000              | 4,685,094 |
| <b>Minnesota</b> 1.4%  |      |          |                        |           |
| Minnesota Agricultural and Economic Development Board, Health Care System Revenue (Fairview Health Care Systems) | 6.38 | 11/15/10 | 2,420,000 <sup>a</sup> | 2,660,088 |
| Minnesota Agricultural and Economic Development Board, Health Care System Revenue (Fairview Health Care Systems) | 6.38 | 11/15/29 | 80,000                 | 86,240    |
|  |      |          | The Fund               | <b>9</b>  |

STATEMENT OF INVESTMENTS (Unaudited) (continued)

| <b>Long-Term Municipal Investments (continued)</b>   | Coupon Rate (%) | Maturity Date | Principal Amount (\$) | Value (\$) |
|--|-----------------|---------------|-----------------------|------------|
| <b>Mississippi</b> 3.1%  |                 |               |                       |            |
| Mississippi Business Finance Corporation, PCR (System Energy Resources, Inc. Project)              | 5.88            | 4/1/22        | 6,000,000             | 6,065,160  |
| <b>Missouri</b> 4.6%   |                 |               |                       |            |
| Missouri Development Finance Board, Infrastructure Facilities Revenue (Branson Landing Project)    | 5.00            | 6/1/35        | 2,500,000             | 2,579,325  |
| Missouri Development Finance Board, Research Facility Revenue (Midwest Research Institute Project) | 5.00            | 11/1/22       | 1,000,000             | 1,039,140  |
| Missouri Health and Educational Facilities Authority, Health Facilities Revenue (BJC Health        |                 |               |                       |            |

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|   |      |         |                        |           |
|---|------|---------|------------------------|-----------|
| System)   | 5.25 | 5/15/32 | 2,500,000              | 2,628,625 |
| Missouri Health and Educational<br>Facilities Authority, Health<br>Facilities Revenue (Saint<br>Anthony's Medical Center) | 6.25 | 12/1/10 | 2,500,000 <sup>a</sup> | 2,738,125 |
| Missouri Housing Development<br>Commission, SFMR<br>(Homeownership Loan Program)<br>(Collateralized: FNMA and GNMA)       | 6.30 | 9/1/25  | 160,000                | 161,571   |
| <b>Nevada</b> 2.2%  |      |         |                        |           |
| Clark County,<br>IDR (Southwest Gas Corporation<br>Project) (Insured; AMBAC)  | 6.10 | 12/1/38 | 4,000,000              | 4,290,200 |
| <b>New Jersey</b> 0.9%  |      |         |                        |           |
| New Jersey Economic Development<br>Authority, Cigarette Tax<br>Revenue  | 5.50 | 6/15/31 | 1,610,000              | 1,707,856 |
| <b>New Mexico</b> 2.4%  |      |         |                        |           |
| Farmington,<br>PCR (Public Service Company of<br>New Mexico San Juan Project)   | 6.30 | 12/1/16 | 3,000,000              | 3,064,680 |
| New Mexico Mortgage Finance<br>Authority, Single Family<br>Mortgage Program<br>(Collateralized: FHLMC and GNMA)           | 6.85 | 9/1/31  | 1,610,000              | 1,633,313 |

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

|  | Coupon<br>Rate (%) | Maturity<br>Date | Principal<br>Amount (\$) | Value (\$) |
|--|--------------------|------------------|--------------------------|------------|
| <b>New York</b> 2.3%   |                    |                  |                          |            |
| Long Island Power Authority,<br>Electric System General Revenue  | 5.00               | 9/1/27           | 1,500,000                | 1,563,855  |
| New York State Dormitory<br>Authority, Catholic Health<br>Services of Long Island<br>Obligated Group Revenue (Saint<br>Francis Hospital Project) | 5.00               | 7/1/27           | 2,930,000                | 3,016,845  |
| <b>North Carolina</b> 3.1%   |                    |                  |                          |            |
| Gaston County Industrial<br>Facilities and Pollution<br>Control Financing Authority,<br>Exempt Facilities Revenue                                |                    |                  |                          |            |

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|  |      |         |                        |           |
|--|------|---------|------------------------|-----------|
| (National Gypsum Company Project)  | 5.75 | 8/1/35  | 1,500,000              | 1,582,035 |
| North Carolina Eastern Municipal Power Agency, Power System Revenue  | 5.13 | 1/1/26  | 3,000,000              | 3,121,650 |
| North Carolina Housing Finance Agency, Home Ownership Revenue  | 6.25 | 1/1/29  | 1,420,000              | 1,459,519 |
| <b>Ohio 4.7%</b>   |      |         |                        |           |
| Cuyahoga County, Hospital Improvement Revenue (The Metrohealth System Project)   | 6.13 | 2/15/09 | 5,000,000 <sup>a</sup> | 5,269,250 |
| Ohio Housing Finance Agency, Residential Mortgage Revenue (Collateralized; GNMA)   | 5.75 | 9/1/30  | 65,000                 | 65,466    |
| Rickenbacker Port Authority, Capital Funding Revenue (OASBO Expanded Asset Pooled)   | 5.38 | 1/1/32  | 3,590,000              | 3,961,637 |
| <b>Oklahoma 1.3%</b>   |      |         |                        |           |
| Oklahoma Development Finance Authority, Revenue (Saint John Health System)   | 6.00 | 2/15/29 | 2,500,000              | 2,612,800 |
| <b>Pennsylvania 7.8%</b>   |      |         |                        |           |
| Delaware County Industrial Development Authority, Water Facilities Revenue (Aqua Pennsylvania, Inc. Project) (Insured; FGIC) | 5.00 | 11/1/38 | 3,375,000              | 3,520,834 |

The Fund

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STATEMENT OF INVESTMENTS (Unaudited) (continued)

| <b>Long-Term Municipal Investments (continued)</b>  | Coupon Rate (%) | Maturity Date | Principal Amount (\$) | Value (\$) |
|---|-----------------|---------------|-----------------------|------------|
| <b>Pennsylvania (continued)</b>   |                 |               |                       |            |
| Pennsylvania Economic Development Financing Authority, RRR (Northampton Generating Project) | 6.60            | 1/1/19        | 3,500,000             | 3,536,470  |
| Sayre Health Care Facilities Authority, Revenue (Guthrie Health)                            | 5.88            | 12/1/31       | 7,750,000             | 8,356,825  |
| <b>Rhode Island 1.2%</b>  |                 |               |                       |            |

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|   |      |         |                        |           |
|---|------|---------|------------------------|-----------|
| Rhode Island Housing and Mortgage Finance Corporation, Homeownership Opportunity Revenue  | 4.70 | 10/1/32 | 2,405,000              | 2,389,079 |
| <b>South Carolina 10.9%</b>   |      |         |                        |           |
| 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              | 5,166,900 |
| Medical University of South Carolina, Hospital Facilities Revenue   | 6.00 | 7/1/09  | 2,500,000 <sup>a</sup> | 2,649,100 |
| Piedmont Municipal Power Agency, Electric Revenue   | 5.25 | 1/1/21  | 3,500,000              | 3,574,690 |
| Securing Assets for Education, Installment Purchase Revenue (Berkeley County School District Project)   | 5.13 | 12/1/30 | 2,500,000              | 2,647,400 |
| Tobacco Settlement Revenue Management Authority of South Carolina, Tobacco Settlement Asset-Backed Bonds  | 6.38 | 5/15/28 | 2,900,000              | 3,134,784 |
| Tobacco Settlement Revenue Management Authority of South Carolina, Tobacco Settlement Asset-Backed Bonds  | 6.38 | 5/15/30 | 3,750,000              | 4,370,962 |
| <b>Texas 12.0%</b>  |      |         |                        |           |
| Cities of Dallas and Fort Worth, Dallas/Fort Worth International Airport, Joint Revenue Improvement (Insured; FSA)                              | 5.00 | 11/1/35 | 2,500,000              | 2,531,325 |

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| <b>Long-Term Municipal Investments (continued)</b>  | Coupon Rate (%) | Maturity Date | Principal Amount (\$)  | Value (\$) |
|---|-----------------|---------------|------------------------|------------|
| <b>Texas (continued)</b>  |                 |               |                        |            |
| Gregg County Health Facilities Development Corporation, HR (Good Shepherd Medical Center Project) (Insured; Radian) | 6.38            | 10/1/10       | 2,500,000 <sup>a</sup> | 2,740,225  |
| Harris County Health Facilities Development Corporation, HR (Memorial Hermann Healthcare System)                    | 6.38            | 6/1/11        | 3,565,000 <sup>a</sup> | 3,952,694  |

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|  |      |         |                        |           |
|--|------|---------|------------------------|-----------|
| Port of Corpus Christi Authority<br>of Nueces County, Revenue<br>(Union Pacific Corporation<br>Project)                              | 5.65 | 12/1/22 | 4,500,000              | 4,700,700 |
| Port of Corpus Christi Industrial<br>Development Corporation,<br>Revenue (Valero Refining and<br>Marketing Company Project)<br>Texas | 5.40 | 4/1/18  | 2,350,000              | 2,423,766 |
| (Veterans Housing Assistance<br>Program) (Collateralized; FHA)   | 6.10 | 6/1/31  | 7,000,000              | 7,335,300 |
| <b>Utah 1.1%</b>   |      |         |                        |           |
| Utah Housing Finance Agency,<br>SFMR (Collateralized; FHA)   | 6.00 | 1/1/31  | 185,000                | 188,293   |
| <b>Vermont 1.1%</b>  |      |         |                        |           |
| Vermont Educational and Health<br>Buildings Financing Agency,<br>Revenue (Saint Michael's<br>College Project)                        | 6.00 | 10/1/28 | 1,500,000              | 1,668,015 |
| Vermont Housing Finance Agency,<br>SFHR (Insured; FSA)   | 6.40 | 11/1/30 | 505,000                | 506,141   |
| <b>Washington 2.7%</b>   |      |         |                        |           |
| Washington Higher Educational<br>Facilities Authority, Revenue<br>(Whitman College)  | 5.88 | 10/1/09 | 5,000,000 <sup>a</sup> | 5,268,100 |
| <b>West Virginia 3.9%</b>  |      |         |                        |           |
| Braxton County,<br>SWDR (Weyerhaeuser Company<br>Project)  | 5.80 | 6/1/27  | 7,450,000              | 7,616,508 |

The Fund

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STATEMENT OF INVESTMENTS (Unaudited) (continued)

| <b>Long-Term Municipal<br/>Investments (continued)</b>  | Coupon<br>Rate (%) | Maturity<br>Date | Principal<br>Amount (\$) | Value (\$) |
|---|--------------------|------------------|--------------------------|------------|
| <b>Wisconsin 5.1%</b>   |                    |                  |                          |            |
| Badger Tobacco Asset<br>Securitization Corporation,<br>Tobacco Settlement<br>Asset-Backed Bonds<br>Wisconsin Health and Educational | 7.00               | 6/1/28           | 2,500,000                | 2,816,350  |

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|  |      |         |                           |                      |
|--|------|---------|---------------------------|----------------------|
| Facilities Authority, Revenue<br>(Aurora Health Care, Inc.)  | 5.60 | 2/15/29 | 4,975,000                 | 5,140,369            |
| Wisconsin Health and Educational<br>Facilities Authority, Revenue<br>(Marshfield Clinic)           | 5.38 | 2/15/34 | 2,000,000                 | 2,114,780            |
| <b>Wyoming</b> 0.8%  |      |         |                           |                      |
| Sweetwater County,<br>SWDR (FMC Corporation Project)   | 5.60 | 12/1/35 | 1,500,000                 | 1,597,860            |
| <b>U.S. Related</b> 13.4%  |      |         |                           |                      |
| Puerto Rico Highways and<br>Transportation Authority,<br>Transportation Revenue<br>(Insured; MBIA) | 6.18 | 7/1/38  | 8,000,000 <sup>b,c</sup>  | 8,216,040            |
| Puerto Rico Highways and<br>Transportation Authority,<br>Transportation Revenue<br>(Insured; MBIA) | 6.18 | 7/1/38  | 10,000,000 <sup>b,c</sup> | 10,270,050           |
| Puerto Rico Infrastructure<br>Financing Authority, Special<br>Tax Revenue (Insured; AMBAC)         | 6.06 | 7/1/15  | 8,000,000 <sup>b,c</sup>  | 8,166,200            |
| <b>Total Investments</b> (cost \$294,779,909)  |      |         | <b>157.8%</b>             | <b>312,021,132</b>   |
| <b>Liabilities, Less Cash and Receivables</b>  |      |         | <b>(7.2%)</b>             | <b>(14,303,883)</b>  |
| <b>Preferred Stock, at redemption value</b>  |      |         | <b>(50.6%)</b>            | <b>(100,000,000)</b> |
| <b>Net Assets Applicable to<br/>Common Shareholders</b>  |      |         | <b>100.0%</b>             | <b>197,717,249</b>   |

<sup>a</sup> These securities are prerefunded; the date shown represents the prerefunded date. Bonds which are prerefunded are collateralized by U.S. Government securities which are held in escrow and are used to pay principal and interest on the municipal issue and to retire the bonds in full at the earliest refunding date. <sup>b</sup> Securities exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions exempt from registration, normally to qualified institutional buyers. At March 31, 2007, these securities amounted to \$38,243,210 or 19.3% of net assets applicable to Common Shareholders. <sup>c</sup> Collateral for floating rate borrowings.

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Summary of Abbreviations

|             |                                       |              |  |
|-------------|---------------------------------------|--------------|--|
| <b>ACA</b>  | American Capital Access               | <b>AGC</b>   | ACE Guaranty Corporation                         |
| <b>AGIC</b> | Asset Guaranty Insurance<br>Company   | <b>AMBAC</b> | American Municipal Bond<br>Assurance Corporation |
| <b>ARRN</b> | Adjustable Rate Receipt Notes         | <b>BAN</b>   | Bond Anticipation Notes                          |
| <b>BIGI</b> | Bond Investors Guaranty Insurance     | <b>BPA</b>   | Bond Purchase Agreement                          |
| <b>CGIC</b> | Capital Guaranty Insurance<br>Company | <b>CIC</b>   | Continental Insurance<br>Company                 |
| <b>CIFG</b> | CDC Ixis Financial Guaranty           | <b>CMAC</b>  | Capital Market Assurance<br>Corporation          |
| <b>COP</b>  | Certificate of Participation          | <b>CP</b>    | Commercial Paper                                 |

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|               |  |              |  |
|---------------|--|--------------|--|
| <b>EDR</b>    | Economic Development Revenue             | <b>EIR</b>   | Environmental Improvement Revenue                        |
| <b>FGIC</b>   | Financial Guaranty Insurance Company     | <b>FHA</b>   | Federal Housing Administration                           |
| <b>FHLB</b>   | Federal Home Loan Bank                   | <b>FHLMC</b> | Federal Home Loan Mortgage Corporation                   |
| <b>FNMA</b>   | Federal National Mortgage Association    | <b>FSA</b>   | Financial Security Assurance                             |
| <b>GAN</b>    | Grant Anticipation Notes                 | <b>GIC</b>   | Guaranteed Investment Contract                           |
| <b>GNMA</b>   | Government National Mortgage Association | <b>GO</b>    | General Obligation                                       |
| <b>HR</b>     | Hospital Revenue                         | <b>IDB</b>   | Industrial Development Board                             |
| <b>IDC</b>    | Industrial Development Corporation       | <b>IDR</b>   | Industrial Development Revenue                           |
| <b>LOC</b>    | Letter of Credit                         | <b>LOR</b>   | Limited Obligation Revenue                               |
| <b>LR</b>     | Lease Revenue                            | <b>MBIA</b>  | Municipal Bond Investors Assurance Insurance Corporation |
| <b>MFHR</b>   | Multi-Family Housing Revenue             | <b>MFMR</b>  | Multi-Family Mortgage Revenue                            |
| <b>PCR</b>    | Pollution Control Revenue                | <b>PILOT</b> | Payment in Lieu of Taxes                                 |
| <b>RAC</b>    | Revenue Anticipation Certificates        | <b>RAN</b>   | Revenue Anticipation Notes                               |
| <b>RAW</b>    | Revenue Anticipation Warrants            | <b>RRR</b>   | Resources Recovery Revenue                               |
| <b>SAAN</b>   | State Aid Anticipation Notes             | <b>SBPA</b>  | Standby Bond Purchase Agreement                          |
| <b>SFHR</b>   | Single Family Housing Revenue            | <b>SFMR</b>  | Single Family Mortgage Revenue                           |
| <b>SONYMA</b> | State of New York Mortgage Agency        | <b>SWDR</b>  | Solid Waste Disposal Revenue                             |
| <b>TAN</b>    | Tax Anticipation Notes                   | <b>TAW</b>   | Tax Anticipation Warrants                                |
| <b>TRAN</b>   | Tax and Revenue Anticipation Notes       | <b>XLCA</b>  | XL Capital Assurance                                     |

The Fund

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STATEMENT OF INVESTMENTS (Unaudited) *(continued)*

Summary of Combined Ratings (Unaudited)

| Fitch                  | or Moody's             | or | Standard & Poor's      | Value (%) <sup>□</sup> |
|------------------------|------------------------|----|------------------------|------------------------|
| AAA                    | Aaa                    |    | AAA                    | 25.5                   |
| AA                     | Aa                     |    | AA                     | 16.7                   |
| A                      | A                      |    | A                      | 26.5                   |
| BBB                    | Baa                    |    | BBB                    | 25.3                   |
| B                      | B                      |    | B                      | 1.2                    |
| Not Rated <sup>d</sup> | Not Rated <sup>d</sup> |    | Not Rated <sup>d</sup> | 4.8                    |
|                        |                        |    |                        | <b>100.0</b>           |

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

<sup>d</sup>

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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.

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STATEMENT OF ASSETS AND LIABILITIES

March 31, 2007 (Unaudited)

|  | Cost        | Value              |
|--|-------------|--------------------|
| <b>Assets (\$):</b>  |             |                    |
| Investments in securities—See Statement of Investments   | 294,779,909 | 312,021,132        |
| Interest receivable  |             | 4,912,859          |
| Prepaid expenses   |             | 4,844              |
|  |             | <b>316,938,835</b> |
| <b>Liabilities (\$):</b>   |             |                    |
| Due to The Dreyfus Corporation and affiliates—Note 3(b)  |             | 190,528            |
| Cash overdraft due to Custodian  |             | 197,704            |
| Payable for floating rate notes issued   |             | 18,500,000         |
| Interest and related expenses payable  |             | 191,304            |
| Dividends payable to Preferred Shareholders  |             | 29,313             |
| Commissions payable  |             | 7,051              |
| Accrued expenses   |             | 105,686            |
|  |             | <b>19,221,586</b>  |
| <b>Auction Preferred Stock</b> , Series A and B,<br>par value \$.001 per share (4,000 shares<br>issued and outstanding at \$25,000 per share<br>liquidation preference)—Note 1 |             | 100,000,000        |
|  |             | <b>197,717,249</b> |
| <b>Composition of Net Assets (\$):</b>   |             |                    |
| Common Stock, par value, \$.001 per share<br>(20,589,320 shares issued and outstanding)  |             | 20,589             |
| Paid-in capital  |             | 185,575,995        |
| Accumulated investment income—net  |             | 503,995            |
| Accumulated net realized gain (loss) on investments  |             | (5,624,553)        |
| Accumulated net unrealized appreciation<br>(depreciation) on investments   |             | 17,241,223         |
|  |             | <b>197,717,249</b> |
| <b>Net assets applicable to Common Shareholders</b>  |             | <b>197,717,249</b> |



**Shares Outstanding**

(110 million shares authorized)

20,589,320

**Net Asset Value**, per share of Common Stock (\$)**9.60***See notes to financial statements.*

The Fund

**17****STATEMENT OF OPERATIONS**

Six Months Ended March 31, 2007 (Unaudited)

**Investment Income (\$):**

|  |                  |
|--|------------------|
| <b>Interest Income</b>                 | <b>9,116,616</b> |
| <b>Expenses:</b>                       |                  |
| Management fee—Note 3(a)               | 1,042,208        |
| Interest and related expenses          | 359,211          |
| Commissions fees—Note 1                | 132,830          |
| Professional fees                      | 38,850           |
| Shareholders' reports                  | 22,057           |
| Shareholder servicing costs—Note 3(b)  | 14,757           |
| Custodian fees—Note 3(b)               | 10,849           |
| Registration fees                      | 10,000           |
| Directors' fees and expenses—Note 3(c) | 2,037            |
| Miscellaneous                          | 22,489           |
| <b>Total Expenses</b>                  | <b>1,655,288</b> |
| <b>Investment Income—Net</b>           | <b>7,461,328</b> |

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

|   |                    |
|---|--------------------|
| Net realized gain (loss) on investments                       | 105,973            |
| Net unrealized appreciation (depreciation) on investments     | (1,871,694)        |
| <b>Net Realized and Unrealized Gain (Loss) on Investments</b> | <b>(1,765,721)</b> |
| <b>Dividends on Preferred Stock</b>                           | <b>(1,752,684)</b> |
| <b>Net Increase in Net Assets Resulting from Operations</b>   | <b>3,942,923</b>   |

*See notes to financial statements.***18****STATEMENT OF CHANGES IN NET ASSETS**

|                         | Six Months Ended<br>March 31, 2007<br>(Unaudited) | Year Ended<br>September 30, 2006 |
|-------------------------|---|----------------------------------|
| <b>Operations (\$):</b> |   |                                  |
| Investment income—net   | 7,461,328   | 13,452,056                       |

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|  |                    |                     |
|--|--------------------|---------------------|
| Net realized gain (loss) on investments                                    | 105,973            | 553,292             |
| Net unrealized appreciation<br>(depreciation) on investments               | (1,871,694)        | (804,643)           |
| Dividends on Preferred Stock   | (1,752,684)        | (3,125,231)         |
| <b>Net Increase (Decrease) in Net Assets<br/>Resulting from Operations</b> | <b>3,942,923</b>   | <b>10,075,474</b>   |
| <hr/>  |                    |                     |
| <b>Dividends to Common Shareholders from (\$):</b>                         |                    |                     |
| <b>Investment income</b>   | <b>(5,064,973)</b> | <b>(10,624,089)</b> |
| <b>Total Increase (Decrease) in Net Assets</b>                             | <b>(1,122,050)</b> | <b>(548,615)</b>    |
| <hr/>  |                    |                     |
| <b>Net Assets (\$):</b>  |                    |                     |
| Beginning of Period  | 198,839,299        | 199,387,914         |
| <b>End of Period</b>   | <b>197,717,249</b> | <b>198,839,299</b>  |
| Undistributed (distributions in<br>excess of) investment income            | 503,995            | (139,676)           |

See notes to financial statements.

The Fund

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## 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.

Six Months Ended

March 31, 2007

| (Unaudited)   | Year Ended September 30, |                  |       |       |       |                  |
|---|--------------------------|------------------|-------|-------|-------|------------------|
|   | 2006                     | 2005             | 2004  | 2003  | 2002  |                  |
| <hr/>   |                          |                  |       |       |       |                  |
| <b>Per Share Data (\$):</b>                               |                          |                  |       |       |       |                  |
| Net asset value,<br>beginning of period                   | 9.66                     | 9.68             | 9.51  | 9.51  | 9.78  | 9.66             |
| Investment Operations:                                    |                          |                  |       |       |       |                  |
| Investment income   | .36                      | .65              | .68   | .69   | .72   | .76              |
| Net realized and unrealized<br>gain (loss) on investments | (.08)                    | .00 <sup>b</sup> | .21   | .09   | (.24) | .00 <sup>b</sup> |
| Dividends on Preferred Stock<br>from investment income    | (.09)                    | (.15)            | (.10) | (.06) | (.07) | (.08)            |
| Total from Investment Operations                          | .19                      | .50              | .79   | .72   | .41   | .68              |
| Distributions to<br>Common Shareholders:                  |                          |                  |       |       |       |                  |
| Dividends from investment<br>income                       | (.25)                    | (.52)            | (.62) | (.72) | (.68) | (.56)            |

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|                                      |                   |      |        |       |      |       |
|--------------------------------------|-------------------|------|--------|-------|------|-------|
| Net asset value, end of period       | 9.60              | 9.66 | 9.68   | 9.51  | 9.51 | 9.78  |
| Market value, end of period          | 9.66              | 9.17 | 9.35   | 10.25 | 9.69 | 9.60  |
| <b>Total Return (%) <sup>c</sup></b> | 8.10 <sup>d</sup> | 3.86 | (2.58) | 14.08 | 8.48 | 17.28 |

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| Six Months Ended<br>March 31, 2007   | (Unaudited)               | Year Ended September 30, |                   |                   |                   |                   |
|--|---------------------------|--------------------------|-------------------|-------------------|-------------------|-------------------|
|  |                           | 2006                     | 2005              | 2004              | 2003              | 2002              |
| <b>Ratios/Supplemental Data (%):</b>   |                           |                          |                   |                   |                   |                   |
| Ratio of total expenses to average net assets applicable to Common Stock <sup>e</sup>        | 1.67 <sup>f,g</sup>       | 1.61 <sup>h</sup>        | 1.48 <sup>h</sup> | 1.40 <sup>h</sup> | 1.42 <sup>h</sup> | 1.44 <sup>h</sup> |
| Ratio of net investment income to average net assets applicable to Common Stock <sup>e</sup> | 7.53 <sup>f</sup>         | 6.83                     | 7.03              | 7.29              | 7.60              | 7.93              |
| Ratio of total expenses to total average net assets  | 1.11 <sup>f,g</sup>       | 1.06 <sup>h</sup>        | .99 <sup>h</sup>  | .93 <sup>h</sup>  | .94 <sup>h</sup>  | .94 <sup>h</sup>  |
| Ratio of net investment income to total average net assets                                   | 5.01 <sup>f</sup>         | 4.53                     | 4.67              | 4.81              | 5.02              | 5.23              |
| Portfolio Turnover Rate  | 3.83 <sup>d,g</sup> 10.09 |                          | 12.62             | 6.72              | 9.88              | 5.32              |
| Asset coverage of Preferred Stock, end of period   | 298                       | 300                      | 299               | 295               | 294               | 299               |
| Net Assets, net of Preferred Stock, end of period (\$ x 1,000)                               | 197,717                   | 198,839                  | 199,388           | 195,395           | 194,390           | 199,361           |
| Preferred Stock outstanding, end of period (\$ x 1,000)                                      | 100,000                   | 100,000                  | 100,000           | 100,000           | 100,000           | 100,000           |

<sup>a</sup> Based on average shares outstanding at each month end.

<sup>b</sup> Amount represents less than \$.01 per share.

<sup>c</sup> Calculated based on market value.

<sup>d</sup> Not annualized.

<sup>e</sup> Does not reflect the effect of dividends to Preferred Stockholders.

<sup>f</sup> Annualized.

<sup>g</sup> Ratio of total expenses to average net assets, ratio of net expenses to average net assets and portfolio turnover rate have been adjusted to reflect participation in inverse floater structures.

<sup>h</sup> Ratio of total expenses to average net assets for prior periods have been restated. This restatement has no impact on the fund's previously reported net assets, net investment income, net asset value or total return. See Note 5.

See notes to financial statements.

The Fund

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NOTES TO FINANCIAL STATEMENTS ( U n a u d i t e d )
**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. The Manager is a wholly-owned subsidiary of Mellon Financial Corporation ("Mellon Financial"). The fund's Common Stock trades on the American Stock Exchange under the ticker symbol DMF.

On December 4, 2006, Mellon Financial and The Bank of New York Company, Inc. announced that they had entered into a definitive agreement to merge. The new company will be called The Bank of New York Mellon Corporation. As part of this transaction, Dreyfus would become a wholly-owned subsidiary of The Bank of New York Mellon Corporation. The transaction is subject to certain regulatory approvals and the approval of The Bank of New York Company, Inc.'s and Mellon Financial's shareholders, as well as other customary conditions to closing. Subject to such approvals and the satisfaction of the other conditions, Mellon Financial and The Bank of New York Company, Inc. expect the transaction to be completed in the third quarter of 2007.

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 com-

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mon 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 Fund

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NOTES TO FINANCIAL STATEMENTS (Unaudited) (continued)

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On September 20, 2006, 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 carryovers, 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) based on the record date's respective prices. If the net asset value per share on the record date is lower than the market price per share, shares will be issued by the fund

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at the record date's net asset value on the payable date of the distribution. If the net asset value per share is less than 95% of the market value, shares will be issued by the fund at 95% of the market value. If the market price is lower than the net asset value per share on the record date, Mellon will purchase fund shares in the open market commencing on the payable date and reinvest those shares accordingly. As a result of purchasing fund shares in the open market, fund shares outstanding will not be affected by this form of reinvestment.

On March 29, 2007, the Board of Directors declared a cash dividend of \$.041 per share from investment income-net, payable on April 30, 2007 to Common Shareholders of record as of the close of business on April 16, 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 March 31, 2007 were as follows: Series A 3.50% and Series B 3.70% .

**(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.

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On July 13, 2006, 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

The Fund

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NOTES TO FINANCIAL STATEMENTS (Unaudited) (continued)

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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.

The fund has an unused capital loss carryover of \$5,820,963 available for federal income tax purposes to be applied against future net securities profits, if any, realized subsequent to September 30, 2006. If not applied, \$356,456 of the carryover expires in fiscal 2008, \$619,742 expires in fiscal 2009, \$1,413,550 expires in fiscal 2010, \$360,799 expires in fiscal 2011 and \$3,070,416 expires in fiscal 2012.

The tax character of distributions paid to shareholders during the fiscal year ended September 30, 2006 were as follows: tax exempt income \$13,749,320. The tax character of current year distributions will be determined at the end of the current fiscal year.

### **NOTE 2 [Bank Line of Credit:**

The fund participates with other Dreyfus-managed funds in a \$100 million unsecured line of credit primarily to be utilized for temporary or emergency purposes. Interest is charged to the fund based on prevailing market rates in effect at the time of borrowing. During the period ended March 31, 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 March 31, 2007, there was no expense reimbursement pursuant to the Agreement.

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(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 March 31, 2007, the fund was charged \$11,723 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 March 31, 2007, the fund was charged \$10,849 pursuant to the custody agreement.

During the period ended March 31, 2007, the fund was charged \$2,044 for services performed by the Chief Compliance Officer.

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The components of Due to The Dreyfus Corporation and affiliates in the Statement of Assets and Liabilities consist of: management fees \$177,451, chief compliance officer fees \$3,067, custodian fees \$4,913 and transfer agency per account fees \$5,097.

(c) Each Board member also serves as a Board member of other funds within the Dreyfus complex. Annual retainer fees and attendance fees are allocated to each fund based on net assets.

**NOTE 4** Securities Transactions:

The aggregate amount of purchases and sales of investment securities, excluding short-term securities, during the period ended March 31, 2007, amounted to \$12,811,902 and \$11,940,350, respectively.

At March 31, 2007, accumulated net unrealized appreciation on investments was \$17,241,223, consisting of \$17,433,501 gross unrealized appreciation and \$192,278 gross unrealized depreciation.

At March 31, 2007, the cost of investments for federal income tax purposes was substantially the same as the cost for financial reporting purposes (see the Statement of Investments).

The Fund

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NOTES TO FINANCIAL STATEMENTS (Unaudited) (continued)

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**NOTE 5** Restatement

Subsequent to the issuance of the September 30, 2006 financial statements, the fund determined that the transfers of certain tax-exempt municipal bond securities by the fund to special purpose bond trusts in connection with participation in inverse floater structures do not qualify for sale treatment under Statement of Financial Accounting Standard No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities, and should have been accounted for as a secured borrowing.

The correction of the above item resulted in the restatement of the ratio of total expenses of the financial highlights table as shown below:

| Ratio of Total Expenses             | 2006 | 2005 | 2004 | 2003 | 2002 |
|-------------------------------------|------|------|------|------|------|
| <b>Common Stock:</b>                |      |      |      |      |      |
| As previously reported              | 1.33 | 1.32 | 1.31 | 1.33 | 1.33 |
| As restated                         | 1.61 | 1.48 | 1.40 | 1.42 | 1.44 |
| <b>Common and Preferred Stocks:</b> |      |      |      |      |      |
| As previously reported              | .88  | .88  | .87  | .88  | .87  |
| As restated                         | 1.06 | .99  | .93  | .94  | .94  |

This restatement has no impact on the fund's previously reported net assets, net investment income, net asset value per share or total return.

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- Item 2. Code of Ethics.**  
Not applicable.
- Item 3. Audit Committee Financial Expert.**  
Not applicable.
- Item 4. Principal Accountant Fees and Services.**  
Not applicable.
- Item 5. Audit Committee of Listed Registrants.**  
Not applicable.
- Item 6. Schedule of Investments.**  
Not applicable.
- Item 7. Disclosure of Proxy Voting Policies and Procedures for Closed-End Management Investment Companies.**  
Not applicable.
- Item 8. Portfolio Managers of Closed-End Management Investment Companies.**  
Not applicable.
- Item 9. Purchases of Equity Securities by Closed-End Management Investment Companies Affiliated Purchasers.**  
Not applicable. [CLOSED-END FUNDS ONLY]
- Item 10. Submission of Matters to a Vote of Security Holders.**

The Registrant has a Nominating Committee (the "Committee"), which is responsible for selecting and nominating persons for election or appointment by the Registrant's Board as Board members. The Committee has adopted a Nominating Committee Charter (the "Charter"). Pursuant to the Charter, the Committee will consider recommendations for nominees from shareholders submitted to the Secretary of the Registrant, c/o The Dreyfus Corporation Legal Department, 200 Park Avenue, 8th Floor East, New York, New York 10166. A nomination submission must include information regarding the recommended nominee as specified in the Charter. This information includes all information relating to a recommended nominee that is required to be disclosed in solicitations or proxy statements for the election of Board members, as well as information sufficient to evaluate the factors to be considered by the Committee, including character and integrity, business and professional experience, and whether the person has the ability to apply sound and independent business judgment and would act in the interests of the Registrant and its shareholders.

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Nomination submissions are required to be accompanied by a written consent of the individual to stand for election if nominated by the Board and to serve if elected by the shareholders, and such additional information must be provided regarding the recommended nominee as reasonably requested by the Committee.

**Item 11. Controls and Procedures.**

(a) The Registrant's principal executive and principal financial officers have concluded, based on their evaluation of the Registrant's disclosure controls and procedures as of a date within 90 days of the filing date of this report, that the Registrant's disclosure controls and procedures are reasonably designed to ensure that information required to be disclosed by the Registrant on Form N-CSR is recorded, processed, summarized and reported within the required time periods and that information required to be disclosed by the Registrant in the reports that it files or submits on Form N-CSR is accumulated and communicated to the Registrant's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

(b) There were no changes to the Registrant's internal control over financial reporting that occurred during the second fiscal quarter of the period covered by this report that have materially affected, or are reasonably likely to materially affect, the Registrant's internal control over financial reporting.

**Item 12. Exhibits.**



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- (a)(1) Not applicable.
- (a)(2) Certifications of principal executive and principal financial officers as required by Rule 30a-2(a) under the Investment Company Act of 1940.
- (a)(3) Not applicable.
- (b) Certification of principal executive and principal financial officers as required by Rule 30a-2(b) under the Investment Company Act of 1940.

**SIGNATURES**

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

DREYFUS MUNICIPAL INCOME, INC.

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

Date: May 21, 2007

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

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

Date: May 21, 2007

By: /s/ James Windels  
James Windels  
Treasurer

Date: May 21, 2007

**EXHIBIT INDEX**

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

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

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