

DREYFUS MUNICIPAL INCOME INC  
Form N-CSR  
November 29, 2004

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED MANAGEMENT  
INVESTMENT COMPANIES

Investment Company Act file number 811-05652

DREYFUS MUNICIPAL INCOME, INC.  
(Exact name of Registrant as specified in charter)

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

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

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

Date of fiscal year end: 9/30

Date of reporting period: 9/30/04

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**FORM N-CSR**

**Item 1. Reports to Stockholders.**

**Dreyfus  
Municipal Income, Inc.**

**ANNUAL REPORT** September 30, 2004

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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

## LETTER FROM THE CHAIRMAN

Dear Shareholder:

This annual report for Dreyfus Municipal Income, Inc. covers the 12-month period from October 1, 2003, through September 30, 2004. Inside, you'll find valuable information about how the fund was managed during the reporting period, including a discussion with the fund's portfolio manager, Joseph Darcy.

The U.S. economy has alternated between signs of strength and weakness, causing heightened volatility in the municipal bond market. Although the Federal Reserve Board (the "Fed") raised short-term interest rates three times toward the end of the reporting period, bond prices generally have held up better than many analysts expected, as investors apparently have revised their economic expectations in response to the insurgency in Iraq, higher energy prices and some disappointing labor statistics.

The Fed's move to a less accommodative monetary policy may be signaling the beginning of a new phase in the economic cycle. At times such as these, when market conditions are in a period of transition, we believe it is especially important for investors to stay in close touch with their financial advisors. Your financial advisor can help you rebalance your portfolio in a way that is designed to respond to the challenges and opportunities of today's changing investment environment.

Thank you for your continued confidence and support.

Sincerely,

Stephen E. Canter  
Chairman and Chief Executive Officer  
The Dreyfus Corporation  
October 15, 2004

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## DISCUSSION OF FUND PERFORMANCE

Joseph Darcy, Senior Portfolio Manager

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

For the 12-month period ended September 30, 2004, the fund achieved a total return of 7.85% .<sup>1</sup> During the same period, the fund provided income dividends of \$0.7200 per share, which is equal to a distribution rate of 7.02% .<sup>2</sup>

Although returns from municipal bonds generally were modestly positive for the reporting period overall, the market was characterized by heightened market volatility, especially during the second half of the reporting period, as investors' expectations of economic growth and inflation changed and the fiscal condition of many states and municipalities improved.

**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 redeemed by their issuers, and we generally attempt to replace those bonds with investments consistent with the fund's investment

The Fund **3**

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DISCUSSION OF FUND PERFORMANCE *(continued)*

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?**

In the months before the start of the reporting period, the U.S. bond markets had suffered one of the worst six-week declines in their history when evidence of stronger economic growth emerged, sparking investors' long-dormant inflation concerns. By October 2003, however, the fixed-income markets had begun to recover as it became increasingly apparent that inflation remained low, and municipal bonds generally gained value through the first quarter of 2004.

In April 2004, however, reports of unexpected strength in the U.S. labor market and higher energy prices rekindled investors' inflation concerns. As investors in April and May revised forward their expectations of the timing of higher interest rates, municipal bond prices declined sharply. The Federal Reserve Board fulfilled investors' revised expectations in late June, when it implemented its first increase in short-term interest rates in more than four years. Additional rate hikes followed in August and September, and the reporting period ended with an overnight federal funds rate of 1.75% . However, the U.S. economy appeared to hit a "soft patch" during the summer, and inflationary pressures seemed to be moderating. As a result, municipal bond prices generally rallied, offsetting much of their earlier declines.

As the economy improved, so did the fiscal condition of many tax-exempt bond issuers, including municipal and state governments. Higher-than-expected tax revenues reduced many issuers' need for short-term financing, and the supply of newly issued tax-exempt bonds dropped compared to the same period one year earlier, helping to support their prices.

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In this environment, trading activity in the fund was limited. As any of the fund's holdings matured or were redeemed early by their issuers, we aggressively sought to reinvest the proceeds in bonds that, in our view, presented good investment opportunities that were consistent with the fund's investment objectives. While always vigilant in the surveillance of the fund's relatively seasoned bonds, most of which offered higher yields than were available from newly issued securities during the reporting period, portfolio decisions on these holdings were based on the structural and credit characteristics of individual issuers. In addition, because yield differences among bonds with different credit ratings narrowed during the reporting period, it made little sense to us to shift assets toward lower-rated securities. Indeed, the fund's core holdings continued to generate what we believe were attractive levels of tax-exempt income, which helped the fund withstand heightened market volatility over the reporting period.

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

While we have continued to maintain the fund's core holdings of seasoned bonds, we have continually monitored the tax-exempt bond market for opportunities to boost the fund's income or upgrade its credit quality. For example, during the reporting period we invested in California's unsecured general obligation bonds when their prices fell to levels we considered attractive. For the most part, however, we have found few such opportunities in today's investment environment, which has been characterized by low, but rising, interest rates.

October 15, 2004

<sup>1</sup> Total return includes reinvestment of dividends and any capital gains paid, based upon net asset value per share. Past performance is no guarantee of future results. Market price per share, net asset value per share and investment return fluctuate. Income may be subject to state and local taxes, and some income may be subject to the federal alternative minimum tax (AMT) for certain investors. Capital gains, if any, are fully taxable.

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

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## STATEMENT OF INVESTMENTS

September 30, 2004 (Unaudited)

Market Price per share September 30, 2004	\$10.25
Shares Outstanding September 30, 2004	20,549,150
American Stock Exchange Ticker Symbol	DMF

## MARKET PRICE (AMERICAN STOCK EXCHANGE)

Fiscal Year Ended September 30, 2004

	<b>Quarter Ended December 31, 2003</b>	<b>Quarter Ended March 31, 2004</b>	<b>Quarter Ended June 30, 2004</b>	<b>Quarter Ended September 30, 2004</b>
High	\$10.00	\$10.74	\$10.55	\$10.38
Low	9.37	9.84	8.52	9.25
Close	9.89	10.69	9.20	10.25

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

October 24, 1988 (commencement of operations)

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through September 30, 2004	208.39%
October 1, 1994 through September 30, 2004	124.62
October 1, 1999 through September 30, 2004	88.89
October 1, 2003 through September 30, 2004	14.08
January 1, 2004 through September 30, 2004	9.67
April 1, 2004 through September 30, 2004	(0.36)
July 1, 2004 through September 30, 2004	13.56

**NET ASSET VALUE PER SHARE**

October 24, 1988 (commencement of operations)	\$9.26
September 30, 2003	9.51
December 31, 2003	9.62
March 31, 2004	9.71
June 30, 2004	9.20
September 30, 2004	9.51

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

October 24, 1988 (commencement of operations)	
through September 30, 2004	208.98%
October 1, 1994 through September 30, 2004	96.56
October 1, 1999 through September 30, 2004	50.14
October 1, 2003 through September 30, 2004	7.85
January 1, 2004 through September 30, 2004	4.61
April 1, 2004 through September 30, 2004	1.78
July 1, 2004 through September 30, 2004	5.36

\* With dividends reinvested.

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**STATEMENT OF INVESTMENTS**

September 30, 2004

<b>Long-Term Municipal Investments</b> 144.9%	Principal Amount (\$)	Value (\$)
<b>Alabama</b> 8.3%		
Courtland Industrial Development Board, SWDR (Champion International Corp. Project) 6.50%, 9/1/2025	2,500,000	2,627,700
Jefferson County, Sewer Revenue, Capital Improvement 5.75%, 2/1/2038 (Insured; FGIC) (Prerefunded 2/1/2009)	7,500,000 <sup>a</sup>	8,526,600
The Board of Trustees of the University of Alabama, HR (University of Alabama at Birmingham) 5.875%, 9/1/2031 (Insured; MBIA)	4,620,000	5,138,918

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**Alaska** 3.6%

Alaska Housing Finance Corp.,

General Mortgage Revenue

6.05%, 6/1/2039 (Insured; MBIA)

6,845,000

7,129,204

**California** 13.2%

ABAG Financial Authority For Nonprofit Corporations:

Insured Revenue, COP

(Odd Fellows Home of California)

6%, 8/15/2024

5,000,000

5,386,200

MFHR

(Civic Center Drive Apartments)

5.875%, 9/1/2032 (Insured; FSA)

3,750,000

3,895,500

California Department of Veteran Affairs,

Home Purchase Revenue 5.20%, 12/1/2028

5,000,000

5,015,850

California Health Facilities Financing Authority,

Revenue (Sutter Health) 6.25%, 8/15/2035

2,500,000

2,787,675

California Statewide Communities Development Authority,

COP (Catholic Healthcare West) 6.50%, 7/1/2020

5,000,000

5,528,150

Golden State Tobacco Securitization Corp., Revenue

(Tobacco Settlement Asset-Backed Bonds)

7.80%, 6/1/2042

3,000,000

3,196,680

**Colorado** 4.3%

City and County of Denver, Airport Revenue

(Special Facilities-United Airlines Inc. Project)

6.875%, 10/1/2032

2,480,000 <sup>b</sup>

1,835,200

Colorado Springs, HR:

6.375%, 12/15/2030

(Prerefunded 12/15/2010)

2,835,000 <sup>a</sup>

3,365,514

6.375%, 12/15/2030

2,890,000

3,104,062

The Fund 7

STATEMENT OF INVESTMENTS (continued)

<b>Long-Term Municipal Investments (continued)</b>	Principal Amount (\$)	Value (\$)
<b>District of Columbia</b> 1.2%		
District of Columbia, Revenue (Catholic University America Project)		
5.625%, 10/1/2029 (Insured; AMBAC)	2,080,000	2,263,248
<b>Florida</b> 2.0%		
Orange County Health Facilities Authority, Revenue (Orlando Regional Healthcare System)		
6%, 10/1/2026	1,500,000	1,573,185
Pinellas County Housing Finance Authority,		

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SFMR (Multi-County Program) 6.70%, 2/1/2028	1,275,000	1,304,529
South Lake County Hospital District, Revenue (South Lake Hospital Inc.) 5.80%, 10/1/2034	1,095,000	1,123,350
<b>Illinois</b> 10.6%		
Chicago 6.125%, 1/1/2028 (Insured; FGIC) Illinois Development Finance Authority, Revenue (Community Rehabilitation Providers Facilities Acquisition Program) 8.75%, 3/1/2010	4,000,000	4,593,360
Illinois Health Facilities Authority, Revenue: (Advocate Health Care Network) 6.125%, 11/15/2022 (OSF Healthcare System)	80,000	80,705
6.25%, 11/15/2029 (Swedish American Hospital)	5,800,000	6,426,864
6.875%, 11/15/2030	7,000,000	7,372,190
2,000,000	2,000,000	2,203,100
<b>Indiana</b> 1.5%		
Franklin Township School Building Corp. (Marion County) First Mortgage 6.125%, 1/15/2022 (Prerefunded 7/15/2010)	2,500,000 <sup>a</sup>	2,960,350
<b>Maryland</b> 5.2%		
Maryland Economic Development Corp., Student Housing Revenue (University of Maryland, College Park Project) 5.625%, 6/1/2035	2,000,000	2,057,000
Maryland Health and Higher Educational Facilities Authority, Revenue (The John Hopkins University Issue) 6%, 7/1/2039 (Prerefunded 7/1/2009)	7,000,000 <sup>a</sup>	8,100,470

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<b>Long-Term Municipal Investments (continued)</b>	Principal Amount (\$)	Value (\$)
<b>Massachusetts</b> 7.0%		
Massachusetts Bay Transportation Authority, Assessment 5%, 7/1/2034	5,000,000	5,115,900
Massachusetts Health and Educational Facilities Authority, Revenue, Healthcare System (Covenant Health) 6%, 7/1/2031	2,500,000	2,624,950
Massachusetts Industrial Finance Agency, Revenue (Water Treatment-American Hingham) 6.95%, 12/1/2035	5,640,000	5,925,835
<b>Michigan</b> 7.6%		
Hancock Hospital Finance Authority, Mortgage Revenue (Portgace Health) 5.45%, 8/1/2047 (Insured; MBIA)	2,200,000	2,251,568



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Michigan Hospital Finance Authority, HR (Genesys Health System Obligated Group) 8.125%, 10/1/2021 (Prerefunded 10/1/2005)	7,670,000 <sup>a</sup>	8,309,678
Michigan Strategic Fund, SWDR (Genesee Power Station Project) 7.50%, 1/1/2021	4,900,000	4,316,165
<b>Minnesota</b> 1.4%		
Minnesota Agricultural and Economic Development Board, Health Care System Revenue (Fairview Health Services) 6.375%, 11/15/2029	2,500,000	2,706,675
<b>Mississippi</b> 3.1%		
Mississippi Business Finance Corp., PCR (System Energy Resource Inc. Project) 5.875%, 4/1/2022	6,000,000	6,019,020
<b>Missouri</b> 3.7%		
Health and Educational Facilities Authority of the State of Missouri, Health Facilities Revenue: (BJC Health System) 5.25%, 5/15/2032	2,500,000	2,583,175
(Saint Anthony's Medical Center) 6.25%, 12/1/2030	2,500,000	2,646,775
The Industrial Development Authority of the City of Saint Louis, Senior Lien Revenue (Saint Louis Convention Center Headquarters Hotel Project) 7.25%, 12/15/2035	2,225,000	1,686,995

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STATEMENT OF INVESTMENTS (continued)

<b>Long-Term Municipal Investments (continued)</b>	Principal Amount (\$)	Value (\$)
<b>Missouri (continued)</b>		
Missouri Housing Development Commission, Mortgage Revenue (Single Family Homeownersip Loan) 6.30%, 9/1/2025	375,000	394,358
<b>Nevada</b> 5.1%		
Clark County, IDR (Southwest Gas Corp.): 6.50%, 12/1/2033	5,300,000	5,347,965
6.10%, 12/1/2038 (Insured; AMBAC)	4,000,000	4,525,440
<b>New Mexico</b> 1.7%		
Farmington, PCR (Public Service Co. San Juan) 6.30%, 12/1/2016	3,000,000	3,271,320
<b>New York</b> 5.6%		
Long Island Power Authority,		

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Electric System Revenue 5%, 9/1/2027 New York City Municipal Water Finance Authority, Water and Sewer System Revenue 5.125%, 6/15/2034 (Insured; FGIC) New York City Transitional Finance Authority, Revenue (Future Tax Secured) 5.25%, 8/1/2019	1,500,000	1,526,070
<b>North Carolina</b> 5.2%		
North Carolina Capital Facilities Finance Agency, Revenue (Duke University Project) 5.25%, 7/1/2042	5,000,000	5,146,400
North Carolina Eastern Municipal Power Agency, Power System Revenue 5.125%, 1/1/2026	3,000,000	3,011,790
North Carolina Housing Finance Agency (Home Ownership) 6.25%, 1/1/2029	1,920,000	2,005,805
<b>Ohio</b> 4.9%		
Cuyahoga County, Hospital Improvement Revenue (The Metrohealth System Project) 6.125%, 2/15/2024	5,000,000	5,231,050
Ohio Housing Finance Agency, Residential Mortgage Revenue 5.75%, 9/1/2030	610,000	624,945
Rickenbacker Port Authority, Capital Funding Revenue (OASBO Expanded Asset Pooled) 5.375%, 1/1/2032	3,590,000	3,753,201
<b>Oklahoma</b> 1.4%		
Oklahoma Development Finance Authority Revenue (Saint John Health System) 6%, 2/15/2029	2,500,000	2,762,350

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<b>Long-Term Municipal Investments (continued)</b>	Principal Amount (\$)	Value (\$)
<b>Pennsylvania</b> 5.9%		
Pennsylvania Economic Development Financing Authority, RRR (Northampton Generating Project) 6.60%, 1/1/2019	3,500,000	3,532,130
Sayre Health Care Facilities Authority, Revenue (Guthrie Health) 5.875%, 12/1/2031	7,750,000	8,028,768
<b>South Carolina</b> 6.4%		
Medical University, Hospital Facilities Revenue 6%, 7/1/2019 (Prerefunded 7/1/2009)	2,500,000 <sup>a</sup>	2,880,900
Piedmont Municipal Power Agency, Electric Revenue 5.25%, 1/1/2021	3,500,000	3,525,655
Tobacco Settlement Revenue Management Authority, Tobacco Settlement Asset-Backed Bonds:		

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6.375%, 5/15/2028	2,900,000	2,696,449
6.375%, 5/15/2030	3,750,000	3,470,138
<b>Texas</b> 10.6%		
Cities of Dallas and Fort Worth, Dallas/Fort Worth International Airport, Joint Revenue Improvement 5%, 11/1/2035 (Insured; FSA)		
	2,500,000	2,501,900
Gregg County Health Facilities Development Corp., HR (Good Shepherd Medical Center Project) 6.375%, 10/1/2025 (Insured; AGIC)		
	2,500,000	2,857,950
Harris County Health Facilities Development Corp., HR (Memorial Hermann Healthcare) 6.375%, 6/1/2029		
	3,565,000	3,905,778
Port of Corpus Christi Authority, Nueces County, General Revenue (Union Pacific) 5.65%, 12/1/2022		
	4,000,000	4,050,040
Texas, Veterans Housing Assistance Program 6.10%, 6/1/2031		
	7,000,000	7,452,200
<b>Utah</b> 1.7%		
Carbon County, SWDR (Sunnyside Cogeneration) 7.10%, 8/15/2023		
	2,868,000	2,797,074
Utah Housing Finance Agency, Single Family Mortgage 6%, 1/1/2031		
	510,000	511,907
<b>Vermont</b> 1.5%		
Vermont Educational and Health Buildings Financing Agency, Revenue (Saint Michael's College Project) 6%, 10/1/2028		
	1,500,000	1,670,925

The Fund 11

STATEMENT OF INVESTMENTS (continued)

<b>Long-Term Municipal Investments (continued)</b>	Principal Amount (\$)	Value (\$)
<b>Vermont (continued)</b>		
Vermont Housing Finance Agency, Single Family Housing 6.40%, 11/1/2030 (Insured; FSA)	1,310,000	1,314,913
<b>Washington</b> 3.8%		
Public Utility District Number 1 of Pend Orielle County, Electric Revenue 6.375%, 1/1/2015	2,000,000	2,084,960
Washington Higher Education Facilities Authority, Revenue (Whitman College Project)		

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5.875%, 10/1/2029	5,000,000	5,327,950
<b>West Virginia</b> 6.6%		
Braxton County, SWDR (Weyerhaeuser Co. Project):		
6.50%, 4/1/2025	5,000,000	5,134,850
5.80%, 6/1/2027	7,450,000	7,669,104
<b>Wisconsin</b> 3.6%		
Badger Tobacco Asset Securitization Corp., Tobacco Settlement Asset-Backed Bonds		
7%, 6/1/2028	2,500,000	2,507,725
Wisconsin Health and Educational Facilities Authority, Revenue (Aurora Health Care, Inc.)		
5.60%, 2/15/2029	4,575,000	4,584,104
<b>Wyoming</b> 1.0%		
Sweetwater County, SWDR (FMC Corp. Proj)		