

DREYFUS MUNICIPAL INCOME INC  
Form N-30D  
December 05, 2001

Dreyfus  
Municipal Income, Inc.

ANNUAL REPORT  
September 30, 2001

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 herein are current to the date of this report. These views and the composition of the fund's portfolio are subject to change at any time based on market and other conditions.

\* Not FDIC-Insured \* Not Bank-Guaranteed \* May Lose Value

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THE FUND

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FOR MORE INFORMATION

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The Fund  
Dreyfus  
Municipal Income, Inc.

LETTER FROM THE CHAIRMAN

Dear Shareholder:

This annual report for Dreyfus Municipal Income, Inc. covers the 12-month period from October 1, 2000 through September 30, 2001. 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.

It is impossible to address the economy and the financial markets without first mentioning the devastating events that befell the U.S. on Tuesday, September 11, 2001. On behalf of The Dreyfus Corporation, I would like to extend heartfelt sympathies to all who have been touched by these tragedies and assure you that we continue to support the relief efforts.

Even before the September 11 attacks, a slowing economy and a return to more normal valuations took their toll on stocks and high yield bonds. And, realistically, the investment environment has become even more challenging in the wake of these traumatic events. However, municipal bonds have generally been one of the bright spots in an otherwise difficult investment environment. Although lower interest rates generally caused tax-exempt bond yields to fall, investors who allocated a portion of their overall investment portfolios to

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municipal bonds enjoyed the benefits of tax-exempt income and potential capital appreciation.

Over the past 50 years, we at Dreyfus have seen investment climates wax and wane, alternately leading to optimism and pessimism among investors. But, through it all, three enduring investment principles have helped investors weather the periodic storms: ASSET ALLOCATION, DIVERSIFICATION and a LONG-TERM PERSPECTIVE. Together, these investing basics have consistently demonstrated their potential to improve performance, manage risk and combat volatility, even during exaggerated market swings.

Given the current market environment, now might be a good time to ensure that your investments are appropriately allocated and diversified for the long term. We encourage you to contact your financial advisor for information about ways to refine your investment strategies.

Thank you for your continued confidence and support.

Sincerely,

Stephen E. Canter  
Chairman and Chief Executive Officer  
The Dreyfus Corporation  
October 15, 2001

### DISCUSSION OF FUND PERFORMANCE

Joseph Darcy, Portfolio Manager

How did Dreyfus Municipal Income, Inc. perform during the period?

For the 12-month period ended September 30, 2001, the fund achieved a 16.41% total return.(1) During the same period, the fund provided income dividends of \$0.528 per share, which is equal to a distribution rate of 6.06%.(2)

We attribute the fund's good performance to a favorable environment for municipal bonds. Tax-exempt bonds provided strong returns because of falling short-term interest rates and high levels of demand from investors fleeing a declining stock market. However, the fund was adversely affected near the end of the period by the tragic events of September 11.

What is the fund's investment approach?

The fund seeks high current federally tax-exempt income from a portfolio primarily of municipal bonds. In so doing, we strive to identify bonds that we believe can help the fund in seeking high current income.

We generally employ two primary strategies. First, we attempt to add value by evaluating interest-rate trends and supply-and-demand factors. Based on that assessment, we look for bonds that we believe can potentially provide high current levels of income. We look at such criteria as the bond's yield, price, age, the creditworthiness of its issuer and any provisions for early redemption

Second, we actively manage the fund's average duration -- a measure of sensitivity to changes in interest rates -- in anticipation of temporary supply-and-demand changes. For example, if we expect the supply of newly issued bonds to increase temporarily, we may reduce the fund's average duration to make cash available for the purchase of what we believe can potentially be higher

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yielding securities. Conversely, if

The Fund

### DISCUSSION OF FUND PERFORMANCE (CONTINUED)

we expect demand for municipal bonds to surge at a time when we anticipate little issuance, we may increase the fund's average duration to maintain then current yields for as long as we think practical.

When bonds held by the fund mature or are redeemed by their issuers, we generally attempt to replace them with newly issued comparable securities. We also may look to upgrade the portfolio investments, when we deem appropriate, with newly issued bonds that, in our opinion, have better structural or income characteristics than existing holdings.

What other factors influenced the fund's performance?

Declining interest rates in a slowing economy represented an important driver of the fund's performance. When the reporting period began, the U.S. economy had already begun showing signs of weakening. Capital spending by businesses fell dramatically, and consumer confidence was compromised by a falling stock market. In this environment, the Federal Reserve Board (the "Fed") attempted to reverse the trend in early January 2001, when it implemented the first of the reporting period's eight short-term interest-rate reductions. All told, the Fed reduced short-term interest rates by a total of 3.50 percentage points to 3.00% during the first nine months of 2001.

At the same time that short-term bond yields fell, long-term bond yields rose, reflecting investors' concerns about a potential re-emergence of inflationary pressures over time. This widening of the yield differences among short-term and long-term municipal bonds created a phenomenon known as a STEEPENING YIELD CURVE. The combination of lower short-term interest rates and a steepening yield curve caused prices of the fund's longer term municipal bond holdings to rise substantially, producing attractive levels of capital appreciation.

In addition, the municipal bond market was positively influenced when demand for higher quality, tax-exempt securities surged from investors fleeing a declining stock market, more than offsetting a relative modest increase in supply compared to the previous year. This also supported municipal bond prices.

What is the fund's current strategy?

We intend to continue to manage the fund with an eye toward upgrading the fund when we deem practicable and protecting its income stream from reinvestment risk in today's low interest-rate environment. This includes seeking income-oriented securities that feature adequate levels of liquidity, sound economic fundamentals and protection from early redemption. We recently found some such opportunities in single-A rated bonds issued by hospitals, which we believed were selling at attractive prices. After energy prices had declined and California's energy crisis had abated, we also invested in what we believed were beaten down bonds from utilities outside of California.

October 15, 2001

- (1) TOTAL RETURN INCLUDES REINVESTMENT OF DIVIDENDS AND ANY CAPITAL GAINS PAID, BASED UPON NET ASSET VALUE PER SHARE. PAST PERFORMANCE IS NO GUARANTEE OF FUTURE RESULTS. MARKET PRICE PER SHARE, NET ASSET VALUE PER SHARE AND INVESTMENT RETURN FLUCTUATE. INCOME MAY BE SUBJECT TO STATE AND LOCAL TAXES, AND SOME INCOME MAY BE SUBJECT TO THE FEDERAL ALTERNATIVE MINIMUM TAX (AMT) FOR CERTAIN INVESTORS. CAPITAL GAINS, IF ANY, ARE FULLY TAXABLE.

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(2) DISTRIBUTION RATE PER SHARE IS BASED UPON DIVIDENDS PER SHARE PAID FROM NET INVESTMENT INCOME DURING THE PERIOD, DIVIDED BY THE MARKET PRICE PER SHARE AT THE END OF THE PERIOD.

The Fund

### SELECTED INFORMATION

September 30, 2001 (Unaudited)

Market Price per share September 30, 2001	\$ 8.71
Shares Outstanding September 30, 2001	20,382,927
American Stock Exchange Ticker Symbol	DMF

### MARKET PRICE (AMERICAN STOCK EXCHANGE)

Fiscal Year Ended September 30, 2001

	QUARTER ENDED DECEMBER 31, 2000	QUARTER ENDED MARCH 31, 2001	QUARTER ENDED JUNE 30, 2001
High	\$8.19	\$ 9.00	\$8.80
Low	7.31	8.31	8.46
Close	8.00	8.86	8.77

### PERCENTAGE GAIN based on change in Market Price\*

October 24, 1988 (commencement of operations)  
through September 30, 2001

October 1, 1991 through September 30, 2001

October 1, 1996 through September 30, 2001

October 1, 2000 through September 30, 2001

January 1, 2001 through September 30, 2001

April 1, 2001 through September 30, 2001

July 1, 2001 through September 30, 2001

### NET ASSET VALUE PER SHARE

October 24, 1988 (commencement of operations)	\$ 9.26
September 30, 2000	8.82

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December 31, 2000	9.18
March 31, 2001	9.37
June 30, 2001	9.39
September 30, 2001	9.66

PERCENTAGE GAIN based on change in Net Asset Value\*

October 24, 1988 (commencement of operations)  
through September 30, 2001

October 1, 1991 through September 30, 2001

October 1, 1996 through September 30, 2001

October 1, 2000 through September 30, 2001

January 1, 2001 through September 30, 2001

April 1, 2001 through September 30, 2001

July 1, 2001 through September 30, 2001

\* WITH DIVIDENDS REINVESTED.

STATEMENT OF INVESTMENTS

September 30, 2001

LONG-TERM MUNICIPAL INVESTMENTS--97.2%

ALABAMA--5.2%

Courtland Industrial Development Board, SWDR

(Champion International Corp. Project)  
6.50%, 9/1/2025

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2,5

Jefferson County, Sewer Revenue, Capital Improvement

5.75%, 2/1/2038 (Insured; FGIC)

7,5

The Board of Trustees of the University of Alabama, HR

(University of Alabama at Birmingham)

5.875%, 9/1/2031 (Insured; MBIA)

4,6

ALASKA--3.3%

Alaska Housing Finance Corp., General Mortgage Revenue

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

7,0

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Valdez, Marine Terminal Revenue

(British Petroleum Pipeline Inc. Project)  
5.50%, 10/1/2028

2,3

CALIFORNIA--5.8%

Abag Financial Authority For Nonprofit Corporations:

Insured Revenue, COP

(Odd Fellows Home of California) 6%, 8/15/2024

5,0

MFHR (Civic Center Drive Apartments)

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

3,7

California Health Facilities Financing Authority,  
Revenue (Sutter Health)

6.25%, 8/15/2035

2,5

California Statewide Communities Development  
Authority, COP (Catholic Healthcare West)  
6.50%, 7/1/2020

5,0

COLORADO--2.7%

Colorado Springs, HR 6.375%, 12/15/2030

5,7

City and County of Denver, Airport Revenue

(Special Facilities-United Airlines Inc. Project)

6.875%, 10/1/2032

2,4

DISTRICT OF COLUMBIA--2.6%

District of Columbia, Revenue  
(Catholic University of America Project)

5.625%, 10/1/2029 (Insured; AMBAC)

2,0

District of Columbia Tobacco Settlement  
Financing Corp., Tobacco Settlement  
Asset-Backed Bonds 6.75%, 5/15/2040

5,0

STATEMENT OF INVESTMENTS (CONTINUED)

LONG-TERM MUNICIPAL INVESTMENTS (CONTINUED)

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FLORIDA--2.8%

Orange County Health Facilities Authority, Revenue

(Orlando Regional Healthcare System)  
6%, 10/1/2026

1,5

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Pinellas County Housing Finance Authority,  
 SFMR (Multi-County Program)  
 6.70%, 2/1/2028 3,9

South Lake County Hospital District, Revenue  
 (South Lake Hospital Inc.) 5.80%, 10/1/2034 2,5

GEORGIA--2.2%

Private Colleges and Universities Facilities Authority,  
 Revenue (Clark Atlanta University Project)  
 8.25%, 1/1/2015 (Prerefunded 1/1/2003) 5,8

ILLINOIS--7.6%

Chicago 6.125%, 1/1/2028 (Insured; FGIC) 4,0

Chicago-O'Hare International Airport, Special Facility  
 Revenue (American Airlines Inc. Project)  
 8.20%, 12/1/2024 1,0

Illinois Development Finance Authority, Revenue  
 (Community Rehabilitation Providers Facilities  
 Acquisition Program):  
 8.75%, 3/1/2010 1  
 5.50%, 7/1/2012 1,4

Illinois Health Facilities Authority, Revenue:  
 (Advocate Health Care Network) 6.125%, 11/15/2022 5,8  
 (OSF Healthcare System) 6.25%, 11/15/2029 7,0  
 (Swedish American Hospital) 6.875%, 11/15/2030 2,0

INDIANA--1.0%

Franklin Township School Building Corp.  
 (Marion County) First Mortgage  
 6.125%, 1/15/2022 (Prerefunded 7/15/2010) 2,5

KENTUCKY--1.3%

Perry County, SWDR (TJ International Project)  
 7%, 6/1/2024 3,5

MARYLAND--2.7%

Maryland Health and Higher Educational Facilities  
 Authority, Revenue (The John Hopkins University Issue)  
 6%, 7/1/2039 (Prerefunded 7/1/2009) 7,0



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LONG-TERM MUNICIPAL INVESTMENTS (CONTINUED)	Pr	Amo
-----		
MASSACHUSETTS--2.0%		
Massachusetts Industrial Finance Agency, Revenue		
(Water Treatment--American Hingham)		
6.95%, 12/1/2035		5,6
MICHIGAN--5.5%		
Hancock Hospital Finance Authority, Mortgage Revenue		
(Portage Health) 5.45%, 8/1/2047 (Insured; MBIA)		2,2
Michigan Hospital Finance Authority, HR		
(Genesys Health System Obligated Group)		
8.125%, 10/1/2021 (Prerefunded 10/1/2005)		7,6
Michigan Strategic Fund, SWDR		
(Genesee Power Station Project)		
7.50%, 1/1/2021		5,0
MINNESOTA--.9%		
Minnesota Agricultural and Economic Development		
Board, Health Care System Revenue		
(Fairview Health Services) 6.375%, 11/15/2029		2,5
MISSISSIPPI--2.0%		
Mississippi Business Finance Corp., PCR		
(System Energy Resource Inc. Project)		
5.875%, 4/1/2022		6,0
MISSOURI--3.2%		
Health and Educational Facilities		
Authority of the State of Missouri,		
Health Facilities Revenue		
(Saint Anthony's Medical Center)		
6.25%, 12/1/2030		2,5
The Industrial Development Authority of the		
City of Saint Louis, Senior Lien Revenue		
(Saint Louis Convention Center		
Headquarters Hotel Project):		

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7.20%, 12/15/2028	1,5
7.25%, 12/15/2035	3,0
Missouri Housing Development Commission, Mortgage Revenue (Single Family- Homeownership Loan) 6.30%, 9/1/2025	1,9

STATEMENT OF INVESTMENTS (CONTINUED)

LONG-TERM MUNICIPAL INVESTMENTS (CONTINUED)

-----	
NEVADA--5.6%	
Clark County, IDR:	
(Nevada Power Co. Project) 5.90%, 10/1/2030	4,0
(Southwest Gas Corp.):	
7.50%, 9/1/2032	3,0
6.50%, 12/1/2033	5,3
6.10%, 12/1/2038 (Insured; AMBAC)	4,0
NEW HAMPSHIRE--1.7%	
New Hampshire Industrial Development Authority, PCR	
(Public Service Co. Project) 7.65%, 5/1/2021	5,0
NEW MEXICO--1.0%	
Farmington, PCR (Public Service Co. San Juan)	
6.30%, 12/1/2016	3,0
NEW YORK--1.0%	
New York City 8.25%, 11/15/2010 (Prerefunded 11/15/2001)	3,0
NORTH CAROLINA--.9%	
North Carolina Housing Finance Agency (Home Ownership)	
6.25%, 1/1/2029	2,5
NORTH DAKOTA--.1%	
North Dakota Housing Finance Agency, SFMR 8.30%, 1/1/2012	2
OHIO--2.1%	

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Cuyahoga County, Hospital Improvement Revenue

(The Metrohealth System Project)  
6.125%, 2/15/2024

5,0

Ohio Housing Finance Agency,  
Residential Mortgage Revenue

5.75%, 9/1/2030

1,0

OKLAHOMA--.9%

Oklahoma Development Finance Authority, Revenue

(Saint John Health System) 6%, 2/15/2029

2,5

PENNSYLVANIA--1.2%

Pennsylvania Economic Development Financing Authority,

RRR (Northampton Generating Project)  
6.60%, 1/1/2019

3,5

SOUTH CAROLINA--5.2%

Medical University, Hospital Facilities Revenue

6%, 7/1/2019

2,5

LONG-TERM MUNICIPAL INVESTMENTS (CONTINUED)

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SOUTH CAROLINA (CONTINUED)

Piedmont Municipal Power Agency, Electric Revenue:

6.55%, 1/1/2016

8

5.25%, 1/1/2021

3,0

Tobacco Settlement Revenue Management Authority,

Tobacco Settlement Asset--Backed Bonds:

6.375%, 5/15/2028

2,9

6.375%, 5/15/2030

5,5

TEXAS--8.1%

Alliance Airport Authority Inc., Special Facilities Revenue

(American Airlines Inc. Project) 7.50%, 12/1/2029

2,3

Austin Convention Enterprises Inc., Convention Center

Hotel First Tier Revenue

6.70%, 1/1/2032

2,0

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Dallas-Fort Worth International Airport Facility Improvement Corp., Revenue (American Airlines, Inc.) 6.375%, 5/1/2035	2,5
Gregg County Health Facilities Development Corp., HR (Good Shepherd Medical Center Project) 6.375%, 10/1/2025	2,5
Harris County Health Facilities Development Corp., HR (Memorial Hermann Healthcare) 6.375%, 6/1/2029	3,5
Port of Corpus Christi Authority, Nueces County, General Revenue (Union Pacific) 5.65%, 12/1/2022	4,0
Texas, Veterans Housing Assistance Program 6.10%, 6/1/2031	7,0
UTAH--2.1%	
Carbon County, SWDR (Sunnyside Cogeneration): 7.10%, 8/15/2023	3,3
Zero Coupon, 8/15/2024	1,0
Utah Housing Finance Agency, Single Family Mortgage 6%, 1/1/2031	2,4
VERMONT--1.1%	
Vermont Housing Finance Agency, Single Family Housing 6.40%, 11/1/2030 (Insured; FSA)	3,0
WASHINGTON--2.5%	
Public Utility District Number 1 of Pend Orielle County, Electric Revenue 6.375%, 1/1/2015	2,0
Washington Higher Education Facilities Authority, Revenue (Whitman College Project) 5.875%, 10/1/2029	5,0

STATEMENT OF INVESTMENTS (CONTINUED)

LONG-TERM MUNICIPAL INVESTMENTS (CONTINUED)

WEST VIRGINIA--4.3%

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Braxton County, SWDR (Weyerhaeuser Co. Project):

6.50%, 4/1/2025 5,0

5.80%, 6/1/2027 7,4

WISCONSIN--3.2%

Wisconsin Health and Educational Facilities Authority, Revenue

(Aurora Health Care, Inc.) 5.60%, 2/15/2029 5,7

Wisconsin Housing and Economic Development Authority,

Home Ownership Revenue 5.75%, 9/1/2028 4,0

WYOMING--1.0%

Sweetwater County, SWDR (FMC Corp. Project)

7%, 6/1/2024 3,0

U.S. RELATED--4.4%

Puerto Rico Highway and Transportation Authority,

Transportation Revenue:

7.84%, 7/1/2038 (Insured; MBIA) 4,0

7.84%, 7/1/2038 5,0

Puerto Rico Infrastructure Financing Authority,

Special Tax Revenue, Residual Certificates

7.785%, 7/1/2015 4,0

TOTAL LONG-TERM MUNICIPAL INVESTMENTS

(cost \$273,308,531)

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SHORT-TERM MUNICIPAL INVESTMENTS--1.0%

-----  
ALABAMA;

Stevenson Industrial Development Board,

Environmental Improvement Revenue

VRDN (Mead Corp. Project)

2.80% (LOC; Toronto--Dominion Bank)

(cost \$3,000,000) 3,0

-----  
TOTAL INVESTMENTS (cost \$276,308,531)

CASH AND RECEIVABLES (NET)

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### NET ASSETS

#### Summary of Abbreviations

AMBAC	American Municipal Bond Assurance Corporation
COP	Certificate of Participation
FGIC	Financial Guaranty Insurance Company
FSA	Financial Security Assurance
HR	Hospital Revenue
IDR	Industrial Development Revenue
MBIA	Municipal Bond Investors Assurance Insurance Corporation
MFHR	Multi-Family Housing Revenue
PCR	Pollution Control Revenue
RRR	Resources Recovery Revenue
SFMR	Single Family Mortgage Revenue
SWDR	Solid Waste Disposal Revenue
VRDN	Variable Rate Demand Notes

#### Summary of Combined Ratings (Unaudited)

Fitch	or	Moody's	or	Standard & Poor's
AAA		Aaa		AAA
AA		Aa		AA
A		A		A
BBB		Baa		BBB
BB		Ba		BB
F1		MIG1/P1		SP1/A1
Not Rated (e)		Not Rated (e)		Not Rated (e)

(A) BONDS WHICH ARE PREREFUNDED ARE COLLATERALIZED BY U.S. GOVERNMENT SECURITIES WHICH ARE HELD IN ESCROW AND ARE USED TO PAY PRINCIPAL AND INTEREST ON THE MUNICIPAL ISSUE AND TO RETIRE THE BONDS IN FULL AT THE EARLIEST REFUNDING DATE.

(B) SECURITIES EXEMPT FROM REGISTRATION UNDER RULE 144A OF THE SECURITIES ACT OF 1933. THESE SECURITIES MAY BE RESOLD IN TRANSACTIONS EXEMPT FROM

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REGISTRATION, NORMALLY TO QUALIFIED INSTITUTIONAL BUYERS. AT SEPTEMBER 30, 2001, THESE SECURITIES AMOUNTED TO \$13,194,100 OR 4.4% OF NET ASSETS.

- (C) INVERSE FLOATER SECURITY--THE INTEREST RATE IS SUBJECT TO CHANGE PERIODICALLY.
- (D) SECURITIES PAYABLE ON DEMAND. VARIABLE INTEREST RATE--SUBJECT TO PERIODIC CHANGE.
- (E) SECURITIES WHICH, WHILE NOT RATED BY FITCH, MOODY'S AND STANDARD & POOR'S HAVE BEEN DETERMINED BY THE MANAGER TO BE OF COMPARABLE QUALITY TO THOSE RATED SECURITIES IN WHICH THE FUND MAY INVEST.
- (F) AT SEPTEMBER 30, 2001, THE FUND HAD \$84,712,729 (28.5%) OF NET ASSETS INVESTED IN SECURITIES WHOSE PAYMENT OF PRINCIPAL AND INTEREST IS DEPENDENT UPON REVENUES GENERATED FROM HEALTH CARE PROJECTS.

SEE NOTES TO FINANCIAL STATEMENTS.

The Fund

STATEMENT OF ASSETS AND LIABILITIES

September 30, 2001

	Cost	Value
-----		
ASSETS (\$):		
Investments in securities--See Statement of Investments	276,308,531	291,712,856
Cash		6,896
Interest receivable		5,573,099
Prepaid expenses		7,461
		297,300,312
-----		
LIABILITIES (\$):		
Due to The Dreyfus Corporation and affiliates		180,933
Dividend payable to Preferred Shareholders		25,211
Commssions payable		14,789
Accrued expenses		127,789
		348,722
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NET ASSETS (\$)		296,951,590
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COMPOSITION OF NET ASSETS (\$):

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Auction Preferred Stock, Series A and B, par value \$.001 per share (4,000 shares issued and outstanding at \$25,000 per share liquidation preference)--Note 1	100,000,000
Common Stock, par value, \$.001 per share (20,382,927 shares issued and outstanding)	20,383
Paid-in capital	188,610,337
Accumulated undistributed investment income--net	1,098,157
Accumulated net realized gain (loss) on investments	(8,181,612)
Accumulated net unrealized appreciation (depreciation) on investments--Note 4	15,404,325
NET ASSETS APPLICABLE TO COMMON SHAREHOLDERS	196,951,590
<hr style="border-top: 1px dashed black;"/>	
NET ASSETS (\$)	296,951,590
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SHARES OUTSTANDING	
(110 million shares of \$.001 par value Common Stock authorized)	20,382,927
NET ASSET VALUE, per share of Common Stock	9.66

SEE NOTES TO FINANCIAL STATEMENTS.

### STATEMENT OF OPERATIONS

Year Ended September 30, 2001

<hr style="border-top: 1px dashed black;"/>	
INVESTMENT INCOME (\$):	
INTEREST INCOME	17,698,285
EXPENSES:	
Management fee--Note 3(a)	2,023,927
Commission fees--Note 1	266,417
Professional fees	143,427
Shareholders' reports	51,337
Shareholder servicing costs--Note 3(b)	50,261
Registration fees	29,000
Custodian fees--Note 3(b)	21,262
Directors' fees and expenses--Note 3(c)	9,445
Interest expense--Note 2	214



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Miscellaneous	34,784
TOTAL EXPENSES	2,630,074
INVESTMENT INCOME--NET	15,068,211

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REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS--NOTE 4 (\$):

Net realized gain (loss) on investments	(1,403,724)
Net unrealized appreciation (depreciation) on investments	17,581,781
NET REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS	16,178,057
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	31,246,268

SEE NOTES TO FINANCIAL STATEMENTS.

The Fund

STATEMENT OF CHANGES IN NET ASSETS

	Year Ended September 30,	
	2001	2000
-----		
OPERATIONS (\$):		
Investment income--net	15,068,211	15,074,014
Net realized gain (loss) on investments	(1,403,724)	(1,054,513)
Net unrealized appreciation (depreciation) on investments	17,581,781	(662,672)
NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS	31,246,268	13,356,829

DIVIDENDS TO SHAREHOLDERS FROM (\$):

Investment income--net:		
Common Stock	(10,762,186)	(10,762,185)
Preferred Stock	(3,354,280)	(4,007,246)
TOTAL DIVIDENDS	(14,116,466)	(14,769,431)

CAPITAL STOCK TRANSACTIONS (\$):

Offering cost to paid-in capital resulting from the issuance of Preferred Stock	30,000	(110,503)
INCREASE (DECREASE) IN NET ASSETS FROM CAPITAL STOCK TRANSACTIONS	30,000	(110,503)

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TOTAL INCREASE (DECREASE) IN NET ASSETS	17,159,802	(1,523,105)
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NET ASSETS (\$):

Beginning of Period	279,791,788	281,314,893
END OF PERIOD	296,951,590	279,791,788
Undistributed investment income--net	1,098,157	146,412

SEE NOTES TO FINANCIAL STATEMENTS.

FINANCIAL HIGHLIGHTS

The following table describes the performance for the fiscal periods indicated. Total return shows how much your investment in the fund would have increased (or decreased) during each period, assuming you had reinvested all dividends and distributions. These figures have been derived from the fund's financial statements and, with respect to common stock, market price data for the fund's common shares.

	Year End		
	2001	2000	1999
<hr/>			
PER SHARE DATA (\$):			
Net asset value, beginning of period	8.82	8.90	9.00
Investment Operations:			
Investment income--net	.74	.74	.74
Net realized and unrealized gain (loss) on investments	.79	(.08)	(.08)
Total from Investment Operations	1.53	.66	.66
Distributions:			
Dividends from investment income--net:			
Common Stock	(.53)	(.53)	(.53)
Preferred Stock	(.16)	(.20)	(.20)
Total Distributions	(.69)	(.73)	(.73)
Capital Stock transaction--net effect of Preferred Stock offering	.00(a)	(.01)	(.01)
Net asset value, end of period	9.66	8.82	8.82
Market value, end of period	8.71	77_8	75_8

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TOTAL RETURN (%) (B)	17.55	10.71	(16.
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RATIOS/SUPPLEMENTAL DATA (%):			
Ratio of expenses to average net assets applicable to Common Stock	1.39 (c,d)	1.48 (c,d)	.
Ratio of net investment income to average net assets applicable to Common Stock	7.97 (c,d)	8.64 (c,d)	5.
Portfolio Turnover Rate	15.27	22.47	35.
Asset coverage of Preferred Stock, end of period	297	280	2
-----			
Net Assets, net of Preferred stock, end of period (\$ x 1,000)	196,952	179,792	181,3
Preferred Stock outstanding, end of period (\$ x 1,000)	100,000	100,000	100,0

(A) AMOUNT REPRESENTS LESS THAN \$.01.

(B) CALCULATED BASED ON MARKET VALUE.

(C) DOES NOT REFLECT THE EFFECT OF DIVIDENDS TO PREFERRED STOCK SHAREHOLDERS.

(D) THE RATIO OF EXPENSES TO TOTAL AVERAGE NET ASSETS AND THE RATIO OF NET INVESTMENT INCOME TO TOTAL AVERAGE NET ASSETS WERE .91% AND 5.21%, RESPECTIVELY, FOR THE YEAR ENDED SETEMBER 30, 2001, .94% AND 5.49%, RESPECTIVELY, FOR THE YEAR ENDED SEPTEMBER 30, 2000 AND .84% AND 5.63%, RESPECTIVELY, FOR THE YEAR ENDED SEPTEMBER 30, 1999.

SEE NOTES TO FINANCIAL STATEMENTS.

The Fund

NOTES TO FINANCIAL STATEMENTS

NOTE 1--Significant Accounting Policies:

Dreyfus Municipal Income, Inc. (the "fund") is registered under the Investment Company Act of 1940, as amended (the "Act"), as a non-diversified closed-end management investment company. The fund's investment objective is to maximize current income exempt from Federal income tax to the extent consistent with the preservation of capital. The Dreyfus Corporation (the "Manager") serves as the fund's investment adviser. The Manager is a direct subsidiary of Mellon Bank, N.A. ("Mellon"), which is a wholly-owned subsidiary of Mellon Financial Corporation. The fund's Common Stock trades on the New York Stock Exchange under the ticker symbol DMF.

The fund issued 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. Bankers Trust, 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

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rate of .25% of the purchase price of the shares of APS placed by the broker-dealer in an auction.

The fund is subject to certain restrictions relating to the APS. Failure to comply with these restrictions could preclude the fund from declaring any distributions to common shareholders or repurchasing common shares and/or could trigger the mandatory redemption of APS at liquidation value.

The holders of the APS, voting as a separate class, have the right to elect at least two directors. The holders of the APS will vote as a separate class on certain other matters, as required by law. The fund has designated Martin D. Fife and Whitney I. Gerard to represent holders of APS on the fund's Board of Directors.

The fund's financial statements are prepared in accordance with accounting principles generally accepted in the United States, which may require the use of management estimates and assumptions. Actual results could differ from those estimates.

(a) Portfolio valuation: Investments in municipal debt securities (excluding options and financial futures on municipal and U.S. Treasury securities) are valued daily by an independent pricing service ("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 each business day. Investments not listed on an exchange or the national securities market, or securities for which there were no transactions, are valued at the average of the most recent bid and asked prices. Bid price is used when no asked price is available.

(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 amortization of premiums and original issue discounts 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.

In November 2000 the American Institute of Certified Public Accountants ("AICPA") issued a revised version of the AICPA Audit and Accounting Guide for Investment Companies (the "Guide"). The revised version of the Guide is effective for financial statements issued for the fiscal years beginning after December 15, 2000. One of the

The Fund

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

new provisions in the Guide requires investment companies to amortize market discount on municipal securities which the fund does not currently do. Upon adoption, the fund will be required to record a cumulative effect adjustment to conform with accounting principles generally accepted in the United States. The effect of this adjustment, effective October 1, 2001, is to increase accumulated

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net investment income with an offsetting decrease to accumulated unrealized appreciation (depreciation) on securities. This adjustment will therefore, have no effect on the net assets of the fund.

(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 are declared and paid at least annually. 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.

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

On September 28, 2001, the Board of Directors declared a cash dividend to Common Shareholders of \$.044 per share from investment income-net, payable on October 26, 2001 to Common Shareholders of record as of the close of business on October 12, 2001.

(d) Dividends to shareholders of APS: For APS, dividends are currently reset every 7 days. The dividend rates in effect at September 30, 2001 were as follows: Series A 2.30% and Series B 2.30%.

(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 Internal Revenue Code of 1986, as amended and to make distributions of income and net realized capital gain sufficient to relieve it from substantially all Federal income and excise taxes

The fund has an unused capital loss carryover of approximately \$6,768,000 available for Federal income tax purposes to be applied against future net securities profits, if any, realized subsequent to September 30, 2001. The amount is calculated based on Federal income tax regulations which may differ from financial reporting in accordance with accounting principles generally accepted in the United States. If not applied, \$5,000,000 of the carryover expires in fiscal 2004, \$1,148,000 expires in fiscal 2008, and \$620,000 expires in fiscal 2009.

### 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 borrowings. During the period ended September 30, 2001, the fund did not borrow under the line of credit.

### NOTE 3--Management Fee and Other Transactions With Affiliates:

(a) Pursuant to a management agreement ("Agreement") with the Manager, the management fee is computed at the annual rate of .70 of 1% of the value of the fund's average daily net assets 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. There was no expense reimbursement for the period ended September 30, 2001.

(b) The fund compensates Mellon under a transfer agency agreement for providing

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personnel and facilities to perform transfer agency services for the fund. During the period ended September 30, 2001, the fund was charged \$50,261 pursuant to the transfer agency agreement.

The Fund

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

The fund compensates Mellon under a custody agreement for providing custodial services for the fund. During the period ended September 30, 2001, the fund was charged \$21,262 pursuant to the custody agreement.

(c) Each Board member also serves as a Board member of other funds within the Dreyfus complex (collectively, the "Fund Group"). Each Board member who is not an "affiliated person" as defined in the Act receives an annual fee of \$45,000 and an attendance fee of \$5,000 for each in person meeting and \$500 for telephone meetings. These fees are allocated among the funds in the Fund Group. The Chairman of the Board receives an additional 25% of such compensation. Subject to the fund's Emeritus Program Guidelines, Emeritus Board members, if any, receive 50% of the annual retainer fee and per meeting fee paid at the time the Board member achieves emeritus status.

### NOTE 4--Securities Transactions:

The aggregate amount of purchases and sales of investment securities, excluding short-term securities, during the period ended September 30, 2001, amounted to \$43,888,972 and \$43,054,642, respectively.

At September 30, 2001, accumulated net unrealized appreciation on investments was \$15,404,325, consisting of \$16,838,722 gross unrealized appreciation and \$1,434,397 gross unrealized depreciation.

At September 30, 2001, 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).

### REPORT OF INDEPENDENT AUDITORS

Shareholders and Board of Directors Dreyfus Municipal Income, Inc.

We have audited the accompanying statement of assets and liabilities of Dreyfus Municipal Income, Inc., including the statement of investments, as of September 30, 2001, and the related statement of operations for the year then ended, the statement of changes in net assets for each of the two years in the period then ended, and financial highlights for each of the years indicated therein. These financial statements and financial highlights are the responsibility of the fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and financial highlights. Our procedures included verification by examination of securities held by the custodian as of September 30, 2001 and confirmation of securities not held by the custodian by correspondence with others. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of Dreyfus Municipal Income, Inc. at September 30, 2001, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended, and the financial highlights for each of the indicated years, in conformity with accounting principles generally accepted in the United States.

New York, New York  
November 8, 2001

The Fund

### ADDITIONAL INFORMATION (Unaudited)

#### Dividend Reinvestment Plan

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

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

A Common Shareholder who has fund shares registered in his name may elect to withdraw from the Plan at any time for a \$5.00 fee and thereby elect to receive cash in lieu of shares of the fund. Changes in elections must be in writing, sent to Mellon Bank, c/o ChaseMellon Shareholder Services, Shareholder Investment Plan, P.O. Box 3338, South Hackensack, New Jersey 07606, should include the shareholder's name and address as they appear on the Agent's records and will be effective only if received more than ten business days prior to the record date for any distribution.

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

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

The fund reserves the right to amend or terminate the Plan as applied to any dividend or distribution paid subsequent to notice of the change sent to Plan

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participants at least 90 days before the record date for such dividend or distribution. The Plan also may be amended or terminated by the Agent on at least 90 days' written notice to Plan participants.

### Managed Dividend Policy

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

### Benefits and Risks of Leveraging

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

The Fund

### ADDITIONAL INFORMATION (Unaudited) (CONTINUED)

Shareholders, the yield curve must be positively sloped: that is, short-term interest rates must be lower than long-term interest rates. At the same time, a period of generally declining interest rates will benefit Common Shareholders. If either of these conditions change, then the risk of leveraging will begin to outweigh the benefits.

### Supplemental Information

For the period ended September 30, 2001, there were: (i) no material changes in the fund's investment objectives or policies, (ii) no changes in the fund's charter or by-laws that would delay or prevent a change of control of the fund, (iii) no material changes in the principal risk factors associated with investment in the fund, and (iv) no change in the person primarily responsible for the day-to-day management of the fund's portfolio.

### IMPORTANT TAX INFORMATION (Unaudited)

In accordance with Federal tax law, the fund hereby designates all the dividends paid from investment income-net during the fiscal year ended September 30, 2001 as "exempt-interest dividends" (not generally subject to regular Federal income tax).

As required by Federal tax law rules, shareholders will receive notification of their portion of the fund's taxable ordinary dividends (if any) and capital gain distributions (if any) paid for the 2001 calendar year on Form 1099-DIV which will be mailed by January 31, 2002.

The Fund



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PROXY RESULTS (Unaudited)

Holders of common stock and holders of Auction Preferred Stock ("APS") voted together as a single class (except as noted below) on a proposal presented the annual stockholders' meeting held on May 18, 2001. The description of the proposal and the number of shares voted are as follows:

	For
-----	
To elect two Class II Directors: ((+))	
Arthur A. Hartman	18,017,258
Whitney I. Gerard ((+)(+))	3,996
((+)) THE TERMS OF THESE CLASS II DIRECTORS EXPIRE IN 2004.	
((+)(+)) ELECTED SOLELY BY APS HOLDERS. COMMON STOCKHOLDERS WERE NOT ENTITLED TO VOTE.	

OFFICERS AND DIRECTORS

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

DIRECTORS

Joseph S. DiMartino, Chairman

Lucy Wilson Benson

David W. Burke

Martin D. Fife\*

Whitney I. Gerard\*

Arthur A. Hartman

George L. Perry

\* AUCTION PREFERRED STOCK DIRECTORS

OFFICERS

President

    Stephen E. Canter

Vice President

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Mark N. Jacobs

Vice President and Treasurer

Joseph Connolly

Executive Vice President

Joseph P. Darcy

Secretary

Michael A. Rosenberg

Assistant Secretary

Robert R. Mullery

Assistant Secretary

Steven F. Newman

Assistant Treasurer

Gregory S. Gruber

PORTFOLIO MANAGERS

Joseph P. Darcy

A. Paul Disdier

Douglas J. Gaylor

Joseph A. Irace

PORTFOLIO MANAGERS (CONTINUED)

Colleen A. Meehan

W. Michael Petty

Scott Sprauer

James Welch

Monica S. Wieboldt

INVESTMENT ADVISER

The Dreyfus Corporation

CUSTODIAN

Mellon Bank, N.A.

COUNSEL

Stroock & Stroock & Lavan LLP

TRANSFER AGENT, DIVIDEND DISBURSING AGENT AND REGISTRAR

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Mellon Bank N.A. (Common Stock)

Bankers Trust (Auction Preferred Stock)

AUCTION AGENT

Bankers Trust (Auction Preferred Stock)

STOCK EXCHANGE LISTING

NYSE Symbol: DMF

INITIAL SEC EFFECTIVE DATE

10/21/88

THE NET ASSET VALUE APPEARS IN THE FOLLOWING PUBLICATIONS: BARRON'S, CLOSED-END BOND FUNDS SECTION UNDER THE HEADING "MUNICIPAL BOND FUNDS" EVERY MONDAY; WALL STREET JOURNAL, MUTUAL FUNDS SECTION UNDER THE HEADING "CLOSED-END FUNDS" EVERY MONDAY; NEW YORK TIMES, BUSINESS SECTION UNDER THE HEADING "CLOSED-END BOND FUNDS--NATIONAL MUNICIPAL BOND FUNDS" EVERY SUNDAY.

NOTICE IS HEREBY GIVEN IN ACCORDANCE WITH SECTION 23(C) OF THE INVESTMENT COMPANY ACT OF 1940, AS AMENDED, THAT THE FUND MAY PURCHASE SHARES OF ITS COMMON STOCK IN THE OPEN MARKET WHEN IT CAN DO SO AT PRICES BELOW THE THEN CURRENT NET ASSET VALUE PER SHARE.

The Fund

For More Information

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

Manager

The Dreyfus Corporation  
200 Park Avenue  
New York, NY 10166

Custodian

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

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

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

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