

DREYFUS MUNICIPAL INCOME INC
Form N-CSR
November 30, 2012

**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)

Janette E. Farragher, Esq.

200 Park Avenue

New York, New York 10166
(Name and address of agent for service)

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

Date of fiscal year end: 09/30

Date of reporting period: 09/30/12

FORM N-CSR

Item 1. Reports to Stockholders.

Dreyfus Municipal Income, Inc.

ANNUAL REPORT September 30, 2012

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 CHAIRMAN AND CEO

Dear Shareholder:

This annual report for Dreyfus Municipal Income, Inc. covers the 12-month period from October 1, 2011, through September 30, 2012. For information about how the fund performed during the reporting period, as well as general market perspectives, we provide a Discussion of Fund Performance on the pages that follow.

The municipal bond market exhibited heightened volatility over the past year as prices rose and fell according to supply-and-demand factors and investors' changing expectations of global and domestic economic conditions. While monthly variations in economic data have been pronounced, the longer-term pace of U.S. economic growth has been relatively consistent at about half the average rate achieved in prior recoveries. Even U.S. employment numbers, which have been volatile over short periods, averaged approximately 150,000 new jobs a month so

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far in 2012, roughly unchanged from the monthly average in 2011.

The sustained but subpar U.S. expansion appears likely to continue over the foreseeable future. On one hand, the economy has responded to a variety of stimulative measures, most notably an aggressively accommodative monetary policy. On the other hand, the prospect of automatic spending cuts and tax hikes scheduled for the end of 2012 has weighed on economic growth by contributing to a temporary postponement of spending decisions among consumers and businesses. Indeed, the ability of the U.S. political system to address both this “fiscal cliff” and long-term deficit reduction could go a long way toward shaping the 2013 market environment. As always, we urge you to speak regularly with your financial advisor to discuss how changing economic conditions may affect your investments.

Thank you for your continued confidence and support.

Jonathan R. Baum
Chairman and Chief Executive Officer
The Dreyfus Corporation
October 15, 2012

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DISCUSSION OF FUND PERFORMANCE

For the period of October 1, 2011, through September 30, 2012, as provided by Daniel Barton and Steven Harvey, Portfolio Managers

Fund and Market Performance Overview

For the 12-month period ended September 30, 2012, Dreyfus Municipal Income, Inc. achieved a total return of 17.69% on a net-asset-value basis.¹ Over the same period, the fund provided aggregate income dividends of \$0.63 per share, which reflects a distribution rate of 5.66%.²

Falling long-term interest rates and favorable supply-and-demand dynamics supported municipal bond prices over the reporting period. The fund particularly benefited from its focus on longer-term maturities and an emphasis on lower-rated securities.

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. Under normal market conditions, the fund invests at least 80% of the value of its net assets in municipal obligations which, at the time of purchase, are rated investment grade or the unrated equivalent as determined by The Dreyfus Corporation (“Dreyfus”) in the case of bonds, and rated in the two highest rating categories or the unrated equivalent as determined by Dreyfus in the case of short-term obligations having, or deemed to have, maturities of less than one year.

To this end, we have constructed a portfolio derived from seeking income opportunities through analysis of each bond's structure, including paying close attention to each bond's yield, maturity and early redemption features. Over time, many of the fund's relatively higher yielding bonds mature or are redeemed by their issuers, and we generally attempt to replace those bonds with investments consistent with the fund's investment policies, albeit with yields that reflect the then-current interest-rate environment. When making new investments, we focus on identifying undervalued sectors and securities, and we minimize the use of interest rate forecasting. We use fundamental analysis to estimate the relative value and attractiveness of various sectors and securities and to exploit pricing inefficiencies in the municipal bond market.

The Fund

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DISCUSSION OF FUND PERFORMANCE *(continued)*

Supply-and-Demand Dynamics Supported Municipal Bonds

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Although macroeconomic concerns in the fall of 2011 and the spring of 2012 sparked heightened volatility in most financial markets, municipal bonds generally remained strong during the reporting period, in part due to falling long-term interest rates stemming from quantitative easing and other stimulative measures by the Federal Reserve Board.

Municipal bond prices also responded positively to robust demand as investors sought competitive levels of after-tax income in a low interest-rate environment. Meanwhile, new issuance volumes remained relatively low when political pressure led to less borrowing for capital projects, and municipalities primarily issued new bonds to refinance older debt, resulting in a net decrease in the supply of tax-exempt securities. In this constructive environment, lower-rated and longer maturity municipal bonds that had been punished earlier in 2011 led the market higher, while highly rated and shorter-term securities generally lagged market averages.

From a credit-quality perspective, a number of state governments have taken the difficult steps necessary to reduce or eliminate budget deficits, and a few have achieved surpluses.

Lower-Rated Municipal Bonds Buoyed Relative Performance

The fund benefited from overweighted exposure to bonds with credit ratings toward the lower end of the investment-grade range, which generally performed better than market averages during the reporting period. Moreover, we maintained a focus on higher yielding revenue-backed municipal bonds and a corresponding de-emphasis on lower yielding general obligation bonds. The fund received especially robust contributions to relative performance from overweighted exposure to municipal bonds backed by revenues from hospitals, industrial development projects, and the states' settlement of litigation with U.S. tobacco companies.

The fund's performance also was helped by a relatively long duration posture as we favored long-term municipal bonds at a time when yields fell at the longer end of the market's maturity spectrum. Finally, our leveraging strategy proved effective in the rallying market, enhancing the fund's total return.

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Disappointments during the reporting period were relatively limited, concentrated mainly among higher quality, lower yielding market segments, such as securities backed by revenues from essential municipal services. In addition, municipal bonds from Puerto Rico, which are exempt from federal and all state income taxes, lost a degree of value due to intensifying concerns regarding the long-term solvency of the U.S. territory's pension system.

Adjusting to Richer Valuations

We have been encouraged by recently improved data, but the U.S. economy remains vulnerable to unexpected shocks and uncertainty regarding future fiscal policies. In addition, higher yielding and longer-maturity bonds have become more richly valued after recent rallies. Consequently, while we have continued to favor revenue-backed municipal bonds over their general obligation counterparts, we remain watchful for opportunities to capture better relative values, and we are prepared to adjust the fund's strategies accordingly.

October 15, 2012

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

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

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

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

2 Distribution rate per share is based upon dividends per share paid from net investment income during the period,

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divided by the market price per share at the end of the period, adjusted for any capital gain distributions.

The Fund

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SELECTED INFORMATION

September 30, 2012 (Unaudited)

| | |
|---|------------|
| Market Price per share September 30, 2012 | \$11.14 |
| Shares Outstanding September 30, 2012 | 20,677,709 |
| NYSE AMEX Ticker Symbol | DMF |

MARKET PRICE (NYSE AMEX)

| Fiscal Year Ended September 30, 2012 | | | | |
|--------------------------------------|---------------------------------------|------------------------------------|-----------------------------------|--|
| | Quarter Ended December 31, 2011 | Quarter Ended March 31, 2012 | Quarter Ended June 30, 2012 | Quarter Ended September 30, 2012 |
| High | \$9.91 | \$10.61 | \$10.97 | \$11.19 |
| Low | 9.16 | 9.63 | 9.91 | 10.38 |
| Close | 9.86 | 9.92 | 10.97 | 11.14 |

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

| | |
|---|----------|
| October 24, 1988 (commencement of operations) through September 30, 2012 | 448.60 % |
| October 1, 2002 through September 30, 2012 | 120.16 |
| October 1, 2007 through September 30, 2012 | 76.44 |
| October 1, 2011 through September 30, 2012 | 24.26 |
| January 1, 2012 through September 30, 2012 | 18.38 |
| April 1, 2012 through September 30, 2012 | 15.81 |
| July 1, 2012 through September 30, 2012 | 3.10 |

NET ASSET VALUE PER SHARE

| | | |
|---|----|------|
| October 24, 1988 (commencement of operations) | \$ | 9.26 |
| September 30, 2011 | | 9.44 |
| December 31, 2011 | | 9.64 |
| March 31, 2012 | | 9.88 |

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| | |
|--------------------|-------|
| June 30, 2012 | 10.11 |
| September 30, 2012 | 10.43 |

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

| | |
|---|----------|
| October 24, 1988 (commencement of operations) through September 30, 2012 | 454.69 % |
| October 1, 2002 through September 30, 2012 | 102.33 |
| October 1, 2007 through September 30, 2012 | 53.34 |
| October 1, 2011 through September 30, 2012 | 17.69 |
| January 1, 2012 through September 30, 2012 | 13.36 |
| April 1, 2012 through September 30, 2012 | 8.87 |
| July 1, 2012 through September 30, 2012 | 4.74 |

* With dividends reinvested.

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STATEMENT OF INVESTMENTS

September 30, 2012

| Long-Term Municipal Investments—145.2% | Coupon Rate (%) | Maturity Date | Principal Amount (\$) | Value (\$) |
|--|--------------------|------------------|--------------------------|------------|
| Arizona—10.3% | | | | |
| Apache County Industrial Development Authority, PCR (Tucson Electric Power Company Project) | 4.50 | 3/1/30 | 1,500,000 | 1,575,210 |
| Barclays Capital Municipal Trust Receipts (Salt River Project Agricultural Improvement and Power District, Salt River Project Electric System Revenue) | 5.00 | 1/1/38 | 9,998,763 ^{a,b} | 11,475,163 |
| Glendale Western Loop 101 Public Facilities Corporation, Third Lien Excise Tax Revenue | 6.25 | 7/1/28 | 1,000,000 | 1,059,420 |

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| | | | | |
|--|------|---------|-----------|-----------|
| Glendale Western Loop 101 Public Facilities Corporation, Third Lien Excise Tax Revenue | 7.00 | 7/1/28 | 2,000,000 | 2,141,640 |
| Pima County Industrial Development Authority, Education Revenue (American Charter Schools Foundation Project) | 5.63 | 7/1/38 | 2,000,000 | 1,914,680 |
| Pima County Industrial Development Authority, IDR (Tucson Electric Power Company Project) | 5.75 | 9/1/29 | 1,000,000 | 1,067,560 |
| Pinal County Electrical District Number 4, Electric System Revenue | 6.00 | 12/1/38 | 2,300,000 | 2,498,237 |
| Salt Verde Financial Corporation, Senior Gas Revenue | 5.00 | 12/1/37 | 490,000 | 539,142 |
| California—22.5% | | | | |
| ABAG Finance Authority for Nonprofit Corporations, Insured Revenue, COP (Odd Fellows Home of California) | 6.00 | 8/15/24 | 5,000,000 | 5,109,800 |
| California, GO (Various Purpose) | 5.75 | 4/1/31 | 3,950,000 | 4,702,278 |
| California, GO (Various Purpose) | 6.00 | 3/1/33 | 1,250,000 | 1,551,950 |
| California, GO (Various Purpose) | 6.50 | 4/1/33 | 3,000,000 | 3,750,390 |

The Fund

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STATEMENT OF INVESTMENTS *(continued)*

| Long-Term Municipal Investments (continued) | Coupon Rate (%) | Maturity Date | Principal Amount (\$) | Value (\$) |
|---|--------------------|------------------|--------------------------|------------|
| California (continued) | | | | |
| California, GO (Various Purpose) | 6.00 | 11/1/35 | 2,500,000 | 3,053,525 |
| California Municipal Finance Authority, Revenue (Southwestern Law School) | 6.50 | 11/1/41 | 750,000 | 881,505 |
| California State Public Works | | | | |

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| | | | | |
|--|------|---------|---------------------------|------------|
| Board, LR (The Regents of the University of California) (Various University of California Projects) | 5.00 | 4/1/34 | 1,000,000 | 1,105,930 |
| Chula Vista, IDR (San Diego Gas and Electric Company) | 5.88 | 2/15/34 | 2,000,000 | 2,357,980 |
| Golden State Tobacco Securitization Corporation, Tobacco Settlement | | | | |
| Asset-Backed Bonds | 4.50 | 6/1/27 | 1,000,000 | 876,250 |
| Golden State Tobacco Securitization Corporation, Tobacco Settlement | | | | |
| Asset-Backed Bonds (Prerefunded) | 7.80 | 6/1/13 | 1,000,000 ^c | 1,051,040 |
| JPMorgan Chase Putters/Drivers Trust (Los Angeles Departments of Airports, Senior Revenue (Los Angeles International Airport)) | 5.25 | 5/15/18 | 10,000,000 ^{a,b} | 11,903,200 |
| Sacramento County, Airport System Subordinate and Passenger Facility Charges | | | | |
| Grant Revenue | 6.00 | 7/1/35 | 2,250,000 | 2,608,920 |
| San Diego Public Facilities Financing Authority, Senior | | | | |
| Sewer Revenue | 5.25 | 5/15/34 | 1,000,000 | 1,154,810 |
| Santa Ana Community Redevelopment Agency, Tax Allocation Revenue (Merged Project Area) | 6.75 | 9/1/28 | 3,000,000 | 3,537,990 |
| Tobacco Securitization Authority of Southern California, Tobacco Settlement | | | | |
| Asset-Backed Bonds (San Diego County Tobacco Asset Securitization Corporation) | 5.00 | 6/1/37 | 3,500,000 | 2,812,740 |

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| Long-Term Municipal | Coupon | Maturity | Principal |
|---------------------|--------|----------|-----------|
|---------------------|--------|----------|-----------|

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| Investments (continued) | Rate (%) | Date | Amount (\$) | Value (\$) |
|--|----------|----------|------------------------|------------|
| California (continued) | | | | |
| Tuolumne Wind Project Authority, Revenue (Tuolumne Company Project) | 5.88 | 1/1/29 | 1,500,000 | 1,797,780 |
| Colorado—5.3% | | | | |
| Colorado Educational and Cultural Facilities Authority, Charter School Revenue (American Academy Project) | 8.00 | 12/1/40 | 1,500,000 | 1,854,840 |
| Colorado Health Facilities Authority, Health Facilities Revenue (The Evangelical Lutheran Good Samaritan Society Project) (Prerefunded) Colorado Springs, HR | 6.13 | 6/1/14 | 2,525,000 ^C | 2,768,385 |
| E-470 Public Highway Authority, Senior Revenue | 6.38 | 12/15/30 | 2,890,000 | 2,894,913 |
| E-470 Public Highway Authority, Senior Revenue | 5.25 | 9/1/25 | 1,000,000 | 1,094,810 |
| E-470 Public Highway Authority, Senior Revenue | 5.38 | 9/1/26 | 1,000,000 | 1,096,120 |
| University of Colorado Regents, University Enterprise Revenue | 5.38 | 6/1/38 | 1,500,000 | 1,769,115 |
| Florida—9.3% | | | | |
| Citizens Property Insurance Corporation, Personal Lines Account/Commercial Lines Account Senior Secured Revenue Greater Orlando Aviation Authority, Airport Facilities Revenue Higher Educational Facilities Financing Authority, Revenue (The University of Tampa Project) | 5.00 | 6/1/22 | 1,500,000 | 1,750,515 |
| Mid-Bay Bridge Authority, Springing Lien Revenue | 6.25 | 10/1/20 | 3,980,000 | 4,959,239 |
| Palm Beach County Health Facilities Authority, Revenue (The Waterford Project) | 5.25 | 4/1/42 | 2,000,000 | 2,213,620 |
| Saint Johns County Industrial Development Authority, Revenue | 7.25 | 10/1/34 | 2,500,000 | 3,193,400 |
| | 5.88 | 11/15/37 | 2,400,000 | 2,508,168 |

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| | | | | |
|---|------|--------|-----------|-----------|
| (Presbyterian Retirement Communities Project) | 5.88 | 8/1/40 | 2,500,000 | 2,765,725 |
|---|------|--------|-----------|-----------|

The Fund

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STATEMENT OF INVESTMENTS *(continued)*

| Long-Term Municipal Investments (continued) | Coupon Rate (%) | Maturity Date | Principal Amount (\$) | Value (\$) |
|--|-----------------|---------------|-----------------------|------------|
| Florida (continued) | | | | |
| South Lake County Hospital District, Revenue (South Lake Hospital, Inc.) | 6.25 | 4/1/39 | 1,000,000 | 1,157,240 |
| Tampa, Capital Improvement Cigarette Tax Allocation Revenue (H. Lee Moffitt Cancer Center Project) | 5.00 | 9/1/28 | 700,000 | 809,949 |
| Tampa, Capital Improvement Cigarette Tax Allocation Revenue (H. Lee Moffitt Cancer Center Project) | 5.00 | 9/1/29 | 700,000 | 806,078 |
| Georgia—2.5% | | | | |
| Atlanta, Airport General Revenue | 5.00 | 1/1/26 | 1,500,000 | 1,695,090 |
| Atlanta, Water and Wastewater Revenue | 6.00 | 11/1/28 | 3,000,000 | 3,701,430 |
| Hawaii—1.3% | | | | |
| Hawaii Department of Budget and Finance, Special Purpose Revenue (Hawaiian Electric Company, Inc. and Subsidiary Projects) | 6.50 | 7/1/39 | 2,400,000 | 2,820,360 |
| Illinois—4.0% | | | | |
| Chicago, General Airport Third Lien Revenue (Chicago O'Hare International Airport) | 5.63 | 1/1/35 | 1,000,000 | 1,179,090 |
| Greater Chicago Metropolitan Water Reclamation District, GO | | | | |

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| | | | | |
|---------------------------------|------|---------|-----------|-----------|
| Capital Improvement Limited | | | | |
| Tax Bonds | 5.00 | 12/1/32 | 2,500,000 | 2,945,525 |
| Illinois, | | | | |
| GO | 5.00 | 8/1/24 | 1,000,000 | 1,132,480 |
| Railsplitter Tobacco Settlement | | | | |
| Authority, Tobacco | | | | |
| Settlement Revenue | 6.00 | 6/1/28 | 2,000,000 | 2,360,540 |
| University of Illinois Board of | | | | |
| Trustees, Auxiliary Facilities | | | | |
| System Revenue | 5.13 | 4/1/36 | 1,000,000 | 1,119,850 |

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| Long-Term Municipal | Coupon | Maturity | Principal | |
|-----------------------------------|----------|----------|-------------|------------|
| Investments (continued) | Rate (%) | Date | Amount (\$) | Value (\$) |
| Indiana—2.2% | | | | |
| Indiana Finance Authority, | | | | |
| Educational Facilities Revenue | | | | |
| (Butler University Project) | 5.00 | 2/1/31 | 1,460,000 | 1,585,253 |
| Indiana Finance Authority, | | | | |
| Midwestern Disaster Relief | | | | |
| Revenue (Ohio Valley Electric | | | | |
| Corporation Project) | 5.00 | 6/1/39 | 1,500,000 | 1,571,400 |
| Indianapolis Local Public | | | | |
| Improvement Bond Bank, Revenue | | | | |
| (Indianapolis Airport | | | | |
| Authority Project) | | | | |
| (Insured; AMBAC) | 5.00 | 1/1/36 | 1,500,000 | 1,570,170 |
| Iowa—1.6% | | | | |
| Iowa Student Loan Liquidity | | | | |
| Corporation, Student | | | | |
| Loan Revenue | 5.75 | 12/1/28 | 3,000,000 | 3,381,270 |
| Louisiana—5% | | | | |
| Louisiana Public Facilities | | | | |
| Authority, Revenue (CHRISTUS | | | | |
| Health Obligated Group) | 6.13 | 7/1/29 | 1,000,000 | 1,175,450 |
| Maine—7% | | | | |
| Maine Health and Higher | | | | |
| Educational Facilities Authority, | | | | |
| Revenue (MaineGeneral | | | | |

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|--|------|--------|---------------------------|------------|
| Medical Center Issue) | 7.50 | 7/1/32 | 1,250,000 | 1,565,738 |
| Maryland—1.9% | | | | |
| Maryland Economic Development Corporation, EDR (Transportation Facilities Project) | 5.75 | 6/1/35 | 1,000,000 | 1,097,640 |
| Maryland Economic Development Corporation, PCR (Potomac Electric Project) | 6.20 | 9/1/22 | 2,500,000 | 3,080,550 |
| Massachusetts—10.3% | | | | |
| Barclays Capital Municipal Trust Receipts (Massachusetts Health and Educational Facilities Authority, Revenue (Massachusetts Institute of Technology Issue)) | 5.00 | 7/1/38 | 10,000,000 ^{a,b} | 11,636,400 |

The Fund

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STATEMENT OF INVESTMENTS (continued)

| Long-Term Municipal Investments (continued) | Coupon Rate (%) | Maturity Date | Principal Amount (\$) | Value (\$) |
|---|-----------------|---------------|-----------------------|------------|
| Massachusetts (continued) | | | | |
| Massachusetts Development Finance Agency, Revenue (Partners HealthCare System Issue) | 5.00 | 7/1/36 | 1,000,000 | 1,132,000 |
| Massachusetts Development Finance Agency, Revenue (Tufts Medical Center Issue) | 7.25 | 1/1/32 | 1,500,000 | 1,908,330 |
| Massachusetts Health and Educational Facilities Authority, Revenue (Suffolk University Issue) | 6.25 | 7/1/30 | 2,000,000 | 2,342,120 |
| Massachusetts Industrial Finance Agency, Water Treatment Revenue (Massachusetts-American Hingham Project) | 6.95 | 12/1/35 | 5,235,000 | 5,237,670 |
| Michigan—8.9% | | | | |
| Detroit, | | | | |

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|--|------|----------|-----------|-----------|
| Sewage Disposal System Senior Lien Revenue (Insured; Assured Guaranty Municipal Corp.) | 7.50 | 7/1/33 | 2,140,000 | 2,700,316 |
| Detroit, Water Supply System Senior Lien Revenue | 5.00 | 7/1/31 | 1,500,000 | 1,593,300 |
| Detroit, Water Supply System Senior Lien Revenue | 5.00 | 7/1/36 | 3,000,000 | 3,130,560 |
| Michigan Building Authority, Revenue (Facilities Program) | 5.13 | 10/15/30 | 2,025,000 | 2,366,334 |
| Michigan Hospital Finance Authority, HR (Henry Ford Health System) | 5.00 | 11/15/38 | 1,515,000 | 1,594,189 |
| Michigan Strategic Fund, SWDR (Genesee Power Station Project) | 7.50 | 1/1/21 | 3,685,000 | 3,684,853 |
| Royal Oak Hospital Finance Authority, HR (William Beaumont Hospital Obligated Group) | 8.00 | 9/1/29 | 2,500,000 | 3,212,225 |
| Wayne County Airport Authority, Airport Revenue (Detroit Metropolitan Wayne County Airport) (Insured; National Public Finance Guarantee Corp.) | 5.00 | 12/1/34 | 1,000,000 | 1,024,540 |

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| Long-Term Municipal Investments (continued) | Coupon Rate (%) | Maturity Date | Principal Amount (\$) | Value (\$) |
|---|--------------------|------------------|--------------------------|------------|
| Minnesota—1.7% | | | | |
| Minneapolis, Health Care System Revenue (Fairview Health Services) | 6.75 | 11/15/32 | 3,000,000 | 3,630,240 |
| Minnesota Agricultural and Economic Development Board, Health Care System Revenue (Fairview Health Care Systems) | 6.38 | 11/15/29 | 80,000 | 80,173 |
| Mississippi—2.6% | | | | |

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| | | | | |
|--|------|---------|--------------------------|-----------|
| Mississippi Business Finance Corporation, PCR (System Energy Resources, Inc. Project) | 5.88 | 4/1/22 | 3,500,000 | 3,510,850 |
| Warren County, Gulf Opportunity Zone Revenue (International Paper Company Project) | 5.38 | 12/1/35 | 2,000,000 | 2,193,240 |
| Nebraska—1.5% | | | | |
| Nebraska Public Power District, General Revenue | 5.00 | 1/1/32 | 2,785,000 | 3,285,270 |
| New Jersey—3.4% | | | | |
| New Jersey Economic Development Authority, Water Facilities Revenue (New Jersey—American Water Company, Inc. Project) | 5.70 | 10/1/39 | 2,000,000 | 2,244,560 |
| New Jersey Higher Education Student Assistance Authority, Student Loan Revenue (Insured; Assured Guaranty Municipal Corp.) | 6.13 | 6/1/30 | 2,500,000 | 2,800,150 |
| Tobacco Settlement Financing Corporation of New Jersey, Tobacco Settlement Asset-Backed Bonds | 5.00 | 6/1/29 | 2,500,000 | 2,329,600 |
| New Mexico—1.6% | | | | |
| Farmington, PCR (Public Service Company of New Mexico San Juan Project) | 5.90 | 6/1/40 | 3,000,000 | 3,356,490 |
| New York—6.9% | | | | |
| Barclays Capital Municipal Trust Receipts (New York City Transitional Finance Authority, Future Tax Secured Revenue) | 5.00 | 5/1/30 | 7,996,797 ^{a,b} | 9,350,157 |

The Fund

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STATEMENT OF INVESTMENTS (continued)

| Long-Term Municipal | Coupon | Maturity | Principal |
|---------------------|--------|----------|-----------|
|---------------------|--------|----------|-----------|

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| Investments (continued) | Rate (%) | Date | Amount (\$) | Value (\$) |
|--|----------|---------|---------------|------------|
| New York (continued) | | | | |
| New York City Educational Construction Fund, Revenue | 6.50 | 4/1/28 | 1,500,000 | 1,926,105 |
| New York City Industrial Development Agency, PILOT Revenue (Yankee Stadium Project) (Insured; Assured Guaranty Municipal Corp.) | 7.00 | 3/1/49 | 1,435,000 | 1,764,074 |
| Port Authority of New York and New Jersey, Special Project Bonds (JFK International Air Terminal LLC Project) | 6.00 | 12/1/36 | 1,500,000 | 1,761,255 |
| North Carolina—2.7% | | | | |
| Barclays Capital Municipal Trust Receipts (North Carolina Medical Care Commission, Health Care Facilities Revenue (Duke University Health System)) | 5.00 | 6/1/42 | 5,000,000 a,b | 5,758,500 |
| Ohio—2.0% | | | | |
| Butler County, Hospital Facilities Revenue (UC Health) | 5.50 | 11/1/40 | 1,500,000 | 1,668,975 |
| Ohio Air Quality Development Authority, Air Quality Revenue (Ohio Valley Electric Corporation Project) | 5.63 | 10/1/19 | 600,000 | 699,294 |
| Toledo-Lucas County Port Authority, Special Assessment Revenue (Crocker Park Public Improvement Project) | 5.38 | 12/1/35 | 2,000,000 | 2,052,900 |
| Pennsylvania—2.5% | | | | |
| Clairton Municipal Authority, Sewer Revenue | 5.00 | 12/1/42 | 1,000,000 | 1,027,730 |
| JPMorgan Chase Putters/Drivers Trust (Geisinger Authority, Health System Revenue (Geisinger Health System)) | 5.13 | 6/1/35 | 2,000,000 a,b | 2,254,820 |
| Philadelphia, GO | 6.50 | 8/1/41 | 1,750,000 | 2,144,222 |

| Long-Term Municipal Investments (continued) | Coupon Rate (%) | Maturity Date | Principal Amount (\$) | Value (\$) |
|---|-----------------|---------------|--------------------------|------------|
| Rhode Island—9% | | | | |
| Tobacco Settlement Financing Corporation of Rhode Island, Tobacco Settlement | | | | |
| Asset-Backed Bonds | 6.13 | 6/1/32 | 2,000,000 | 2,019,820 |
| South Carolina—6.6% | | | | |
| 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 | 5,203,050 |
| South Carolina Public Service Authority, Revenue Obligations | 5.50 | 1/1/38 | 3,000,000 | 3,571,500 |
| Tobacco Settlement Revenue Management Authority of South Carolina, Tobacco Settlement | | | | |
| Asset-Backed Bonds | 6.38 | 5/15/30 | 3,750,000 | 5,452,762 |
| Texas—11.7% | | | | |
| Barclays Capital Municipal Trust Receipts (Texas A&M University System Board of Regents, Financing System Revenue) | 5.00 | 5/15/39 | 5,000,000 ^{a,b} | 5,693,800 |
| Dallas and Fort Worth, Joint Improvement Revenue (Dallas/Fort Worth International Airport) | 5.00 | 11/1/42 | 2,500,000 | 2,703,750 |
| Houston, Airport System Subordinate Lien Revenue | 5.00 | 7/1/25 | 1,300,000 | 1,482,234 |
| La Vernia Higher Education Finance Corporation, Education Revenue (Knowledge is Power Program, Inc.) | 6.25 | 8/15/39 | 2,250,000 | 2,629,845 |
| Lubbock Educational Facilities Authority, Improvement Revenue (Lubbock Christian University) | 5.25 | 11/1/37 | 1,500,000 | 1,611,630 |
| North Texas Education Finance | | | | |

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| | | | | |
|--|------|---------|-----------|-----------|
| Corporation, Education Revenue (Uplift Education) | 5.13 | 12/1/42 | 2,000,000 | 2,132,620 |
|--|------|---------|-----------|-----------|

The Fund

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STATEMENT OF INVESTMENTS *(continued)*

| Long-Term Municipal Investments (continued) | Coupon Rate (%) | Maturity Date | Principal Amount (\$) | Value (\$) |
|---|--------------------|------------------|--------------------------|------------|
| Texas (continued) | | | | |
| North Texas Tollway Authority, First Tier System Revenue (Insured; Assured Guaranty Municipal Corp.) | 5.75 | 1/1/40 | 1,685,000 | 1,946,461 |
| North Texas Tollway Authority, Second Tier System Revenue Pasadena Independent School District, Unlimited Tax School Building Bonds (Permanent School Fund Guarantee Program) | 5.75 | 1/1/38 | 4,000,000 | 4,419,480 |
| | 5.00 | 2/15/31 | 2,000,000 | 2,431,600 |
| Virginia—2.5% | | | | |
| Virginia Commonwealth Transportation Board, Transportation Capital Projects Revenue | 5.00 | 5/15/21 | 1,660,000 | 2,108,964 |
| Virginia Commonwealth Transportation Board, Transportation Capital Projects Revenue | 5.00 | 5/15/22 | 1,000,000 | 1,280,640 |
| Washington County Industrial Development Authority, HR (Mountain States Health Alliance) | 7.25 | 7/1/19 | 1,780,000 | 2,034,611 |
| Washington—4.7% | | | | |
| Barclays Capital Municipal Trust Receipts (King County, Sewer Revenue) Port of Seattle, Intermediate Lien Revenue | 5.00 | 1/1/29 | 2,999,037 ^{a,b} | 3,554,007 |
| | 5.00 | 8/1/33 | 1,000,000 | 1,173,500 |

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| | | | | |
|--|------|--------|-----------|-----------|
| Washington Health Care Facilities Authority, Mortgage Revenue (Highline Medical Center) (Collateralized; FHA) | 6.25 | 8/1/36 | 2,990,000 | 3,507,898 |
|--|------|--------|-----------|-----------|

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| Long-Term Municipal Investments (continued) | Coupon Rate (%) | Maturity Date | Principal Amount (\$) | Value (\$) |
|--|-----------------|---------------|-----------------------|------------|
| Washington (continued) | | | | |
| Washington Health Care Facilities Authority, Revenue (Catholic Health Initiatives) | 6.38 | 10/1/36 | 1,500,000 | 1,846,860 |
| West Virginia—.5% | | | | |
| The County Commission of Harrison County, SWDR (Allegheny Energy Supply Company, LLC Harrison Station Project) | 5.50 | 10/15/37 | 1,000,000 | 1,053,440 |
| Wisconsin—.5% | | | | |
| Public Finance Agency, Senior Airport Facilities Revenue (Transportation Infrastructure Properties, LLC Obligated Group) | 5.00 | 7/1/42 | 1,000,000 | 1,007,610 |
| Wyoming—1.0% | | | | |
| Wyoming Municipal Power Agency, Power Supply System Revenue | 5.50 | 1/1/38 | 2,000,000 | 2,215,280 |
| U.S. Related—10.6% | | | | |
| Guam, LOR (Section 30) | 5.75 | 12/1/34 | 1,500,000 | 1,689,615 |
| Puerto Rico Aqueduct and Sewer Authority, Senior Lien Revenue | 5.13 | 7/1/37 | 2,500,000 | 2,482,450 |
| Puerto Rico Commonwealth, Public Improvement GO | 5.50 | 7/1/32 | 1,000,000 | 1,053,530 |
| Puerto Rico Commonwealth, Public Improvement GO | 6.50 | 7/1/40 | 1,000,000 | 1,132,920 |
| Puerto Rico Electric Power Authority, Power Revenue | 5.00 | 7/1/37 | 1,945,000 | 1,947,704 |
| Puerto Rico Electric Power Authority, Power Revenue | 5.50 | 7/1/38 | 5,400,000 | 5,663,898 |

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| | | | | |
|---|------|--------|-----------|-----------|
| Puerto Rico Electric Power Authority, Power Revenue | 5.25 | 7/1/40 | 1,500,000 | 1,511,760 |
|---|------|--------|-----------|-----------|

The Fund

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STATEMENT OF INVESTMENTS (continued)

| Long-Term Municipal Investments (continued) | Coupon Rate (%) | Maturity Date | Principal Amount (\$) | Value (\$) |
|---|-----------------|---------------|-----------------------|----------------------|
| U.S. Related (continued) | | | | |
| Puerto Rico Sales Tax Financing Corporation, Sales Tax Revenue (First Subordinate Series) | 5.38 | 8/1/39 | 1,000,000 | 1,064,740 |
| Puerto Rico Sales Tax Financing Corporation, Sales Tax Revenue (First Subordinate Series) | 6.00 | 8/1/42 | 5,500,000 | 6,108,960 |
| Total Long-Term Municipal Investments (cost \$278,279,816) | | | | 313,289,474 |
| Short-Term Municipal Investment—.2% | | | | |
| New York; | | | | |
| New York City, GO Notes (LOC; JPMorgan Chase Bank) (cost \$500,000) | 0.19 | 10/1/12 | 500,000 ^d | 500,000 |
| Total Investments (cost \$278,779,816) | | | 145.4 % | 313,789,474 |
| Liabilities, Less Cash and Receivables | | | (10.6 %) | (23,029,639) |
| Preferred Stock, at redemption value | | | (34.8 %) | (75,000,000) |
| Net Assets Applicable to Common Shareholders | | | 100.0 % | 215,759,835 |

a Collateral for floating rate borrowings.

b Securities exempt from registration pursuant to Rule 144A under the Securities Act of 1933. These securities may be resold in transactions exempt from registration, normally to qualified institutional buyers. At September 30, 2012, these securities were valued at \$61,626,047 or 28.6% of net assets applicable to Common Shareholders.

c 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

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the municipal issue and to retire the bonds in full at the earliest refunding date.

d Variable rate demand note—rate shown is the interest rate in effect at September 30, 2012. Maturity date represents the next demand date, or the ultimate maturity date if earlier.

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Summary of Abbreviations

| | | | |
|-----------------|---|----------------|--|
| ABAG | Association of Bay Area Governments | ACA | American Capital Access |
| AGC | ACE Guaranty Corporation | AGIC | Asset Guaranty Insurance Company |
| AMBAC | American Municipal Bond Assurance Corporation | ARRN | Adjustable Rate Receipt Notes |
| BAN | Bond Anticipation Notes | BPA | Bond Purchase Agreement |
| CIFG | CDC Ixis Financial Guaranty | COP | Certificate of Participation |
| CP | Commercial Paper | DRIVERS | Derivative Inverse Tax-Exempt Receipts |
| EDR | Economic Development Revenue | EIR | Environmental Improvement Revenue |
| FGIC | Financial Guaranty Insurance Company | FHA | Federal Housing Administration |
| FHLB | Federal Home Loan Bank | FHLMC | Federal Home Loan Mortgage Corporation |
| FNMA | Federal National Mortgage Association | GAN | Grant Anticipation Notes |
| GIC | Guaranteed Investment Contract | GNMA | Government National Mortgage Association |
| GO | General Obligation | HR | Hospital Revenue |
| IDB | Industrial Development Board | IDC | Industrial Development Corporation |
| IDR | Industrial Development Revenue | LIFERS | Long Inverse Floating Exempt Receipts |
| LOC | Letter of Credit | LOR | Limited Obligation Revenue |
| LR | Lease Revenue | MERLOTS | Municipal Exempt Receipt Liquidity Option Tender |
| MFHR | Multi-Family Housing Revenue | MFMR | Multi-Family Mortgage Revenue |
| PCR | Pollution Control Revenue | PILOT | Payment in Lieu of Taxes |
| P-FLOATS | Puttable Floating Option Tax-Exempt Receipts | PUTTERS | Puttable Tax-Exempt Receipts |
| RAC | Revenue Anticipation Certificates | RAN | Revenue Anticipation Notes |
| RAW | Revenue Anticipation Warrants | ROCS | Reset Options Certificates |

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| | | | |
|---------------|--|---------------|-----------------------------------|
| RRR | Resources Recovery Revenue | SAAN | State Aid Anticipation Notes |
| SBPA | Standby Bond Purchase Agreement | SFHR | Single Family Housing Revenue |
| SFMR | Single Family Mortgage Revenue | SONYMA | State of New York Mortgage Agency |
| SPEARS | Short Puttable Exempt Adjustable Receipts | SWDR | Solid Waste Disposal Revenue |
| TAN | Tax Anticipation Notes | TAW | Tax Anticipation Warrants |
| TRAN | Tax and Revenue Anticipation Notes | XLCA | XL Capital Assurance |

The Fund

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STATEMENT OF INVESTMENTS *(continued)*

Summary of Combined Ratings (Unaudited)

| Fitch | or | Moody's | or | Standard & Poor's | Value (%) [†] |
|------------------------|----|------------------------|----|------------------------|------------------------|
| AAA | | Aaa | | AAA | 6.4 |
| AA | | Aa | | AA | 22.3 |
| A | | A | | A | 39.4 |
| BBB | | Baa | | BBB | 26.0 |
| BB | | Ba | | BB | 2.0 |
| B | | B | | B | .8 |
| Not Rated ^e | | Not Rated ^e | | Not Rated ^e | 3.1 |
| | | | | | 100.0 |

[†] Based on total investments.

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

See notes to financial statements.

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STATEMENT OF ASSETS AND LIABILITIES

September 30, 2012

| | Cost | Value |
|---------------------|------|-------|
| Assets (\$): | | |

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| | | |
|---|-------------|--------------------|
| Investments in securities—See Statement of Investments | 278,779,816 | 313,789,474 |
| Interest receivable | | 4,794,140 |
| Prepaid expenses | | 12,507 |
| | | 318,596,121 |
| Liabilities (\$): | | |
| Due to The Dreyfus Corporation and affiliates—Note 2(b) | | 174,826 |
| Cash overdraft due to Custodian | | 1,009,085 |
| Payable for floating rate notes issued—Note 3 | | 26,494,597 |
| Interest and expense payable related to floating rate notes issued—Note 3 | | 67,487 |
| Commissions payable—Note 1 | | 14,251 |
| Dividends payable to Preferred Shareholders | | 2,006 |
| Accrued expenses | | 74,034 |
| | | 27,836,286 |
| Auction Preferred Stock , Series A and B, par value \$.001 per share (3,000 shares issued and outstanding at \$25,000 per share liquidation preference)—Note 1 | | 75,000,000 |
| Net Assets applicable to Common Shareholders (\$) | | 215,759,835 |
| Composition of Net Assets (\$): | | |
| Common Stock, par value, \$.001 per share (20,677,709 shares issued and outstanding) | | 20,678 |
| Paid-in capital | | 181,254,116 |
| Accumulated undistributed investment income—net | | 4,678,031 |
| Accumulated net realized gain (loss) on investments | | (5,202,648) |
| Accumulated net unrealized appreciation (depreciation) on investments | | 35,009,658 |
| Net Assets applicable to Common Shareholders (\$) | | 215,759,835 |
| Shares Outstanding | | |
| (110 million shares authorized) | | 20,677,709 |
| Net Asset Value , offering and redemption price per share (\$) | | 10.43 |

See notes to financial statements.

The Fund

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STATEMENT OF OPERATIONS

Year Ended September 30, 2012

Investment Income (\$):

| | |
|--|-------------------|
| Interest Income | 15,432,927 |
| Expenses: | |
| Management fee—Note 2(a) | 1,959,777 |
| Interest and expense related to floating rate notes issued—Note 3 | 190,326 |
| Commission fees—Note 1 | 128,906 |
| Professional fees | 92,821 |
| Shareholders' reports | 55,977 |
| Shareholder servicing costs—Note 2(b) | 41,505 |
| Directors' fees and expenses—Note 2(c) | 27,140 |
| Registration fees | 23,333 |
| Custodian fees—Note 2(b) | 21,007 |
| Miscellaneous | 50,237 |
| Total Expenses | 2,591,029 |
| Investment Income—Net | 12,841,898 |
| Realized and Unrealized Gain (Loss) on Investments—Note 3 (\$): | |
| Net realized gain (loss) on investments | 2,232,312 |
| Net realized gain (loss) on swap transactions | 9,048 |
| Net Realized Gain (Loss) | 2,241,360 |
| Net unrealized appreciation (depreciation) on investments | 18,540,640 |
| Net Realized and Unrealized Gain (Loss) on Investments | 20,782,000 |
| Dividends on Preferred Stocks | (180,868) |
| Net Increase in Net Assets Resulting from Operations | 33,443,030 |

See notes to financial statements.

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STATEMENT OF CASH FLOWS

September 30, 2012

| | |
|---|-------------------|
| Cash Flows from Operating Activities (\$): | |
| Interest received | 15,926,314 |
| Operating expenses paid | (2,454,014) |
| Dividends paid to Preferred Shareholders | (179,865) |
| Purchases of portfolio securities | (53,132,650) |
| Net sales of short-term portfolio securities | 1,200,000 |
| Proceeds from sales of portfolio securities | 51,284,561 |
| Net proceeds from swap transactions | 9,048 |
| | 12,653,394 |
| Cash Flows from Financing Activities (\$): | |

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| | | |
|---|---------------|---------------------|
| Dividends paid to Common Shareholders | (12,467,811) | |
| Interest and expense related to floating rate notes issued paid | (188,044) | (12,655,855) |
| Decrease in cash | | (2,461) |
| Cash overdraft at beginning of period | | (1,006,624) |
| Cash overdraft at end of period | | (1,009,085) |
| Reconciliation of Net Increase in Net Assets Applicable to | | |
| Common Shareholders Resulting from Operations to | | |
| Net Cash Provided by Operating Activities (\$): | | |
| Net Increase in Net Assets Applicable to Common Shareholders Resulting From Operations | | 33,443,030 |
| Adjustments to reconcile net increase in net assets applicable to common shareholders resulting from operations to net cash provided by operating activities (\$): | | |
| Increase in investments in securities, at cost | | (1,041,851) |
| Decrease in payable for investment securities purchased | | (1,838,550) |
| Decrease in interest receivable | | 159,269 |
| Decrease in commissions payable and accrued expenses | | (60,441) |
| Decrease in prepaid expenses | | 1,689 |
| Increase in due to The Dreyfus Corporation and affiliates | | 5,441 |
| Increase in dividends payable to Preferred Shareholders | | 1,003 |
| Interest and expense related to floating rate notes issued | | 190,326 |
| Net unrealized appreciation on investments | | (18,540,640) |
| Net amortization of premiums on investments | | 334,118 |
| Net Cash Provided by Operating Activities | | 12,653,394 |
| Supplemental disclosure of cash flow information (\$): | | |
| Non-cash financing activities: | | |
| Reinvestment of dividends | | 539,553 |

See notes to financial statements.

The Fund

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STATEMENT OF CHANGES IN NET ASSETS

| | Year Ended September 30, | |
|---|--------------------------|--------------|
| | 2012 | 2011 |
| Operations (\$): | | |
| Investment income—net | 12,841,898 | 13,538,381 |
| Net realized gain (loss) on investments | 2,241,360 | (3,677,839) |

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| | | |
|---|----------------------|----------------------|
| Net unrealized appreciation | | |
| (depreciation) on investments | 18,540,640 | (1,446,561) |
| Dividends to Preferred Shareholders | (180,868) | (254,839) |
| Net Increase (Decrease) in Net Assets | | |
| Resulting from Operations | 33,443,030 | 8,159,142 |
| Dividends to Common Shareholders from (\$) | | |
| Investment income—net | (13,007,364) | (12,780,769) |
| Capital Stock Transactions (\$): | | |
| Dividends reinvested | 539,553 | 206,432 |
| Total Increase (Decrease) in Net Assets | 20,975,219 | (4,415,195) |
| Net Assets (\$): | | |
| Beginning of Period | 194,784,616 | 199,199,811 |
| End of Period | 215,759,835 | 194,784,616 |
| Undistributed investment income—net | 4,678,031 | 5,087,521 |
| Capital Share Transactions : | | |
| Increase in Shares Outstanding as | | |
| a Result of Dividends Reinvested | 54,167 | 23,527 |

See notes to financial statements.

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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.

| | Year Ended September 30, | | | | |
|---------------------------------------|--------------------------|--------|--------|--------|--------|
| | 2012 | 2011 | 2010 | 2009 | 2008 |
| Per Share Data (\$): | | | | | |
| Net asset value, beginning of period | 9.44 | 9.67 | 9.37 | 8.43 | 9.34 |
| Investment Operations: | | | | | |
| Investment income—net | .62 | .66 | .65 | .66 | .70 |
| Net realized and unrealized | | | | | |
| gain (loss) on investments | 1.01 | (.26) | .23 | .83 | (.95) |
| Dividends to Preferred Shareholders | | | | | |
| from investment income—net | (.01) | (.01) | (.02) | (.06) | (.17) |
| Total from Investment Operations | 1.62 | .39 | .86 | 1.43 | (.42) |
| Distributions to Common Shareholders: | | | | | |
| Dividends from investment income—net | (.63) | (.62) | (.56) | (.49) | (.49) |

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| | | | | | |
|-------------------------------------|-------|------|-------|-------|----------|
| Net asset value, end of period | 10.43 | 9.44 | 9.67 | 9.37 | 8.43 |
| Market value, end of period | 11.14 | 9.55 | 9.95 | 8.62 | 7.03 |
| Total Return (%)^b | 24.26 | 2.85 | 22.72 | 30.87 | (14.04) |

The Fund

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FINANCIAL HIGHLIGHTS (continued)

| | Year Ended September 30, | | | | |
|---|--------------------------|---------|---------|---------|---------|
| | 2012 | 2011 | 2010 | 2009 | 2008 |
| Ratios/Supplemental Data (%): | | | | | |
| Ratio of total expenses to average net assets applicable to Common Stock ^C | 1.26 | 1.29 | 1.35 | 1.41 | 1.55 |
| Ratio of interest and expense related to floating rate notes issued to average net assets applicable to Common Stock ^C | .09 | .09 | .08 | — | .19 |
| Ratio of net investment income to average net assets applicable to Common Stock ^C | 6.27 | 7.33 | 7.03 | 7.98 | 7.64 |
| Ratio of total expenses to total average net assets | .93 | .92 | .92 | .89 | 1.01 |
| Ratio of interest and expense related to floating rate notes issued to total average net assets | .07 | .06 | .05 | — | .12 |
| Ratio of net investment income to total average net assets | 4.59 | 5.21 | 4.80 | 5.04 | 4.98 |
| Portfolio Turnover Rate | 18.69 | 22.73 | 18.26 | 23.36 | 50.58 |
| Asset Coverage of Preferred Stock, end of period | 388 | 360 | 366 | 293 | 274 |
| Net Assets net of preferred stock, end of period (\$ x 1,000) | 215,760 | 194,785 | 199,200 | 193,029 | 173,703 |
| Preferred Stock Outstanding, end of period (\$ x 1,000) | 75,000 | 75,000 | 75,000 | 100,000 | 100,000 |

a Based on average shares outstanding at each month end.

b Calculated based on market value.

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

See notes to financial statements.

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NOTES TO FINANCIAL STATEMENTS

NOTE 1—Significant Accounting Policies:

Dreyfus Municipal Income, Inc. (the “fund”) is registered under the Investment Company Act of 1940, as amended (the “Act”), as a non-diversified closed-end management investment company. The fund’s investment objective is to maximize current income exempt from federal income tax to the extent consistent with the preservation of capital. The Dreyfus Corporation (the “Manager” or “Dreyfus”), a wholly-owned subsidiary of The Bank of New York Mellon Corporation (“BNY Mellon”), serves as the fund’s investment adviser. The fund’s Common Stock trades on the New York Stock Exchange Amex (the “NYSE”) under the ticker symbol DMF.

The fund has outstanding 1,500 shares of Series A and 1,500 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 or by reference to a market rate. 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 .15%-.25% of the purchase price of the shares of APS.

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. Thus, redemptions of APS may be deemed to be outside of the control of the fund.

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 as directors to be elected by the holders of APS.

The Financial Accounting Standards Board (“FASB”) Accounting Standards Codification is the exclusive reference of authoritative U.S.

The Fund

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NOTES TO FINANCIAL STATEMENTS (continued)

generally accepted accounting principles (“GAAP”) recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the Securities and Exchange Commission (“SEC”) under authority of federal laws are also sources of authoritative GAAP for SEC registrants. The fund’s financial statements are prepared in accordance with GAAP, 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: The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e., the exit price). GAAP establishes a fair value hierarchy that prioritizes the inputs of valuation techniques used to measure fair value. This hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

Additionally, GAAP provides guidance on determining whether the volume and activity in a market has decreased significantly and whether such a decrease in activity results in transactions that are not orderly. GAAP requires enhanced disclosures around valuation inputs and

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techniques used during annual and interim periods.

Various inputs are used in determining the value of the fund's investments relating to fair value measurements. These inputs are summarized in the three broad levels listed below:

Level 1—unadjusted quoted prices in active markets for identical investments.

Level 2—other significant observable inputs (including quoted prices for similar investments, interest rates, prepayment speeds, credit risk, etc.).

Level 3—significant unobservable inputs (including the fund's own assumptions in determining the fair value of investments).

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The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

Changes in valuation techniques may result in transfers in or out of an assigned level within the disclosure hierarchy. Valuation techniques used to value the fund's investments are as follows:

Investments in securities are valued each business day by an independent pricing service (the "Service") approved by the fund's Board of Directors (the "Board"). 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 the following: yields or prices of municipal securities of comparable quality, coupon, maturity and type; indications as to values from dealers; and general market conditions. All of the preceding securities are categorized within Level 2 of the fair value hierarchy. Investments in swap transactions are valued each business day by the Service. Swaps are valued by the Service by using a swap pricing model which incorporates among other factors, default probabilities, recovery rates, credit curves of the underlying issuer and swap spreads on interest rates. These securities are generally categorized within Level 2 of the fair value hierarchy.

The Service's procedures are reviewed by Dreyfus under the general supervision of the Board.

When market quotations or official closing prices are not readily available, or are determined not to reflect accurately fair value, such as when the value of a security has been significantly affected by events after the close of the exchange or market on which the security is principally traded, but before the fund calculates its net asset value, the

The Fund

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NOTES TO FINANCIAL STATEMENTS (continued)

fund may value these investments at fair value as determined in accordance with the procedures approved by the Board. Certain factors may be considered when fair valuing investments such as: fundamental analytical data, the nature and duration of restrictions on disposition, an evaluation of the forces that influence the market in which the securities are purchased and sold, and public trading in similar securities of the issuer or comparable issuers. These securities are either categorized as Level 2 or 3 depending on the relevant inputs used.

For restricted securities where observable inputs are limited, assumptions about market activity and risk are used and are categorized within Level 3 of the fair value hierarchy.

The following is a summary of the inputs used as of September 30, 2012 in valuing the fund's investments:

| | Level 2—Other | Level 3— |
|------------|---------------|--------------|
| Level 1— | Significant | Significant |
| Unadjusted | Observable | Unobservable |

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| | Quoted Prices | Inputs | Inputs | Total |
|----------------------------------|---------------|--------------|--------|---------------------|
| Assets (\$) | | | | |
| Investments in Securities: | | | | |
| Municipal Bonds | — | 313,789,474 | — | 313,789,474 |
| Liabilities (\$) | | | | |
| Floating Rate Notes [†] | — | (26,494,597) | — | (26,494,597) |

[†] Certain of the fund's liabilities are held at carrying amount, which approximates fair value for financial reporting purposes.

At September 30, 2012, there were no transfers between Level 1 and Level 2 of the fair value hierarchy.

(b) Securities transactions and investment income: Securities transactions are recorded on a trade date basis. Realized gains and losses 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.

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(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 gains, 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 gains can be offset by capital loss carryovers, it is the policy of the fund not to distribute such gains. Income and capital gain distributions are determined in accordance with income tax regulations, which may differ from GAAP.

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) 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, Computershare Shareowner Services LLC (“Computershare”), the fund’s transfer agent, will buy fund shares in the open market.

On September 27, 2012, the fund’s Board declared a cash dividend of \$.0525 per share from investment income-net, payable on October 31, 2012 to Common Shareholders of record as of the close of business on October 12, 2012.

(d) Dividends to shareholders of APS: Dividends, which are cumulative, are generally reset every 7 days for each Series of APS pursuant to a process specified in related fund charter documents. Dividend rates as of September 30, 2012, for each Series of APS were as follows: Series A—0.274% and Series B—0.274%. These rates reflect the “maximum rates” under the governing instruments as a result of “failed auctions”

The Fund

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NOTES TO FINANCIAL STATEMENTS (continued)

in which sufficient clearing bids are not received. The average dividend rates for the period ended September 30, 2012 for each Series of APS were as follows: Series A—0.240% and Series B—0.240%.

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(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.

As of and during the period ended September 30, 2012, the fund did not have any liabilities for any uncertain tax positions. The fund recognizes interest and penalties, if any, related to uncertain tax positions as income tax expense in the Statement of Operations. During the period, the fund did not incur any interest or penalties.

Each of the tax years in the four-year period ended September 30, 2012 remains subject to examination by the Internal Revenue Service and state taxing authorities.

At September 30, 2012, the components of accumulated earnings on a tax basis were as follows: undistributed tax-exempt income \$4,805,083, accumulated capital losses \$5,315,478 and unrealized appreciation \$35,122,488.

Under the Regulated Investment Company Modernization Act of 2010 (the "2010 Act"), the fund is permitted to carry forward capital losses incurred in taxable years beginning after December 22, 2010 ("post-enactment losses") for an unlimited period. Furthermore, post-enactment capital loss carryovers retain their character as either short-term or long-term capital losses rather than short-term as they were under previous statute. The 2010 Act requires post-enactment losses to be utilized before the utilization of losses incurred in taxable years prior to the effective date of the 2010 Act ("pre-enactment losses"). As a result of this ordering rule, pre-enactment losses may be more likely to expire unused.

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The accumulated capital loss carryover is available for federal income tax purposes to be applied against future net realized capital gains, if any, realized subsequent to September 30, 2012. If not applied, \$298,941 of the carryover expires in fiscal year 2016, \$1,246,519 expires in fiscal year 2017 and \$2,354,251 expires in fiscal year 2018. The fund has \$1,415,767 of post-enactment short-term capital losses which can be carried forward for an unlimited period.

The tax character of distributions paid to shareholders during the fiscal periods ended September 30, 2012 and September 30, 2011 were as follows: tax-exempt income \$13,129,348 and \$13,021,789 and ordinary income \$58,884 and \$13,819, respectively.

During the period ended September 30, 2012, as a result of permanent book to tax differences, primarily due to the tax treatment for amortization adjustments and capital loss carryover expiration, the fund decreased accumulated undistributed investment income-net by \$63,156, increased accumulated net realized gain (loss) on investments by \$3,064,054 and decreased paid-in capital by \$3,000,898. Net assets and net asset value per share were not affected by this reclassification.

(f) New Accounting Pronouncement: In December 2011, FASB issued Accounting Standards Update No. 2011-11 "Disclosures about Offsetting Assets and Liabilities" ("ASU 2011-11"). These disclosure requirements are intended to help investors and other financial statement users to better assess the effect or potential effect of offsetting arrangements on a company's financial position. They also improve transparency in the reporting of how companies mitigate credit risk, including disclosure of related collateral pledged or received. In addition, ASU 2011-11 facilitates comparison between those entities that prepare their financial statements on the basis of GAAP and those entities that prepare their financial statements on the basis of International Financial Reporting Standards ("IFRS"). ASU 2011-11 requires entities to: disclose both gross and net information about both instruments and transactions eligible for offset in the financial statements; and disclose instruments and transactions

The Fund

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NOTES TO FINANCIAL STATEMENTS *(continued)*

subject to an agreement similar to a master netting agreement. ASU 2011-11 is effective for fiscal years beginning on or after January 1, 2013, and interim periods within those annual periods. At this time, management is evaluating the implications of ASU 2011-11 and its impact on the funds' financial statement disclosures.

NOTE 2—Management Fee and Other Transactions With Affiliates:

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(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 weekly net assets, inclusive of the outstanding APS, and is payable monthly. The Agreement provides that if in any full fiscal year the aggregate expenses of the fund, exclusive of taxes, interest on borrowings, brokerage fees and extraordinary expenses, exceed the expense limitation of any state having jurisdiction over the fund, the fund may deduct from payments to be made to the Manager, or the Manager will bear, the amount of such excess to the extent required by state law. During the period ended September 30, 2012, there was no expense reimbursement pursuant to the Agreement.

(b) For the period from October 1, 2011 to December 31, 2011, the fund compensated BNY Mellon Shareowner Services LLC, an affiliate of the Manager, under a transfer agency agreement for performing transfer agency services for the fund. During the period ended December 31, 2011, the fund was charged \$2,398 pursuant to the transfer agency agreement with BNY Mellon Shareowner Services LLC, which is included in Shareholder servicing costs in the Statement of Operations. Effective January 1, 2012, Computershare acquired BNY Mellon Shareowner Services LLC and is performing the transfer agency services for the fund. Computershare is not affiliated with the Manager.

The fund compensates The Bank of New York Mellon, a subsidiary of BNY Mellon and an affiliate of Dreyfus, under a custody agreement for providing custodial services to the fund. During the period ended September 30, 2012, the fund was charged \$21,007 pursuant to the custody agreement.

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During the period ended September 30, 2012, the fund was charged \$8,384 for services performed by the Chief Compliance Officer and his staff.

The components of “Due to The Dreyfus Corporation and affiliates” in the Statement of Assets and Liabilities consist of: management fees \$165,697, custodian fees \$7,138 and Chief Compliance Officer fees \$1,991.

(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 3—Securities Transactions:

The aggregate amount of purchases and sales of investment securities, excluding short-term securities and swap transactions, during the period ended September 30, 2012, amounted to \$51,294,100 and \$51,284,561, respectively.

Inverse Floater Securities: The fund participates in secondary inverse floater structures in which fixed-rate, tax-exempt municipal bonds are transferred to a trust. The trust subsequently issues two or more variable rate securities that are collateralized by the cash flows of the fixed-rate, tax-exempt municipal bonds. One or more of these variable rate securities pays interest based on a short-term floating rate set by a remarketing agent at predetermined intervals. A residual interest tax-exempt security is also created by the trust, which is transferred to the fund, and is paid interest based on the remaining cash flow of the trust, after payment of interest on the other securities and various expenses of the trust.

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

The Fund

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NOTES TO FINANCIAL STATEMENTS (continued)

The average amount of borrowings outstanding under the inverse floater structure during the period ended September 30, 2012 was approximately \$26,494,600, with a related weighted average annualized interest rate of .72%.

Derivatives: A derivative is a financial instrument whose performance is derived from the performance of another asset. Each type of derivative instrument that was held by the fund during the period ended September 30, 2012 is discussed below.

Swap Transactions: The fund enters into swap agreements to exchange the interest rate on, or return generated by, one nominal instrument for the return generated by another nominal instrument. The fund enters into these agreements to hedge certain market or interest rate risks, to manage the interest rate sensitivity (sometimes called duration) of fixed income securities, to provide a substitute for purchasing or selling particular securities or to increase potential returns.

The fund accrues for the interim payments on swap contracts on a daily basis, with the net amount recorded within unrealized appreciation (depreciation) on swap contracts in the Statement of Assets and Liabilities. Once the interim payments are settled in cash, the net amount is recorded as a realized gain (loss) on swaps, in addition to realized gain (loss) recorded upon the termination of swap contracts in the Statement of Operations. Upfront payments made and/or received by the fund, are recorded as an asset and/or liability in the Statement of Assets and Liabilities and are recorded as a realized gain or loss ratably over the contract's term/event with the exception of forward starting interest rate swaps which are recorded as realized gains or losses on the termination date. Fluctuations in the value of swap contracts are recorded for financial statement purposes as unrealized appreciation or depreciation on swap transactions.

Interest Rate Swaps: Interest rate swaps involve the exchange of commitments to pay and receive interest based on a notional principal amount. The fund may elect to pay a fixed rate and receive a floating rate, or receive a fixed rate and pay a floating rate on a notional prin-

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cipal amount. The net interest received or paid on interest rate swap agreements is included within unrealized appreciation (depreciation) on swap contracts in the Statement of Assets and Liabilities. Interest rate swaps are valued daily and the change, if any, is recorded as an unrealized gain or loss in the Statement of Operations. When a swap contract is terminated early, the fund records a realized gain or loss equal to the difference between the current realized value and the expected cash flows. At September 30, 2012, there were no interest rate swap agreements outstanding.

At September 30, 2012, the cost of investments for federal income tax purposes was \$252,172,389; accordingly, accumulated net unrealized appreciation on investments was \$35,122,488, consisting of \$35,174,755 gross unrealized appreciation and \$52,267 gross unrealized depreciation.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Shareholders and Board of Directors
Dreyfus Municipal Income, Inc.

We have audited the accompanying statement of assets and liabilities of Dreyfus Municipal Income, Inc., including the statement of investments, as of September 30, 2012, and the related statements of operations and cash flows for the year then ended, the statement of changes in net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. We were not engaged to perform an audit of the Fund's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and financial highlights, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our procedures included confirmation of securities owned as of September 30, 2012 by correspondence with the custodian and others. 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, 2012, the results of its operations and its cash flows 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 five years in the period then ended, in conformity with U.S. generally accepted accounting principles.

New York, New York
November 27, 2012

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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 Computershare Trust Company, N.A., as Plan administrator (the "Administrator"), 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 Administrator, 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 or her 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 The Bank of New York Mellon, c/o Shareowner Services, P.O. Box 358035, Pittsburgh, PA 15252-8035, should include the shareholder's name and address as they appear on the Administrator's records and will be effective only if received more than ten business days prior to the record date for any distribution.

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ADDITIONAL INFORMATION (Unaudited) (continued)

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

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

Level Distribution Policy

The fund's dividend policy is to distribute substantially all of its net investment income to its shareholders on a monthly basis. In order to provide shareholders with a more consistent yield to the current trading price of shares of Common Stock of the fund, the fund may at times pay out more or less than the entire amount of net investment income earned in any particular month and may at times in any month pay out any

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.

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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 has issued Preferred stock and employs the use of tax-exempt tender option bonds, which pay dividends or interest, respectively, 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 for either of these forms of leverage to benefit Common shareholders, the yield curve must be positively sloped: that is, short-term interest rates must be lower than long-term interest rates. At the same time, a period of generally declining interest rates will benefit Common Shareholders. If either of these conditions change along with other factors that may have an effect on preferred dividends or tender options bonds, then the risk of leveraging will begin to outweigh the benefits.

Supplemental Information

During the period ended September 30, 2012, there were: (i) no material changes in the fund's investment objectives or fundamental investment policies, (ii) no changes in the fund's charter or by-laws that would delay or prevent a change of control of the fund, (iii) no material changes in the principal risk factors associated with investment in the fund, and (iv) no change in the persons primarily responsible for the day-to-day management of the fund's portfolio.

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IMPORTANT TAX INFORMATION (Unaudited)

In accordance with federal tax law, the fund hereby reports all the dividends paid from investment income-net during its fiscal year ended September 30, 2012 as "exempt-interest dividends" (not generally subject to regular federal income tax), except \$58,884 that is being reported as an ordinary income distribution for reporting purposes. Where required by federal tax law rules, shareholders will receive notification of their portion of the fund's taxable ordinary dividends (if any), capital gains distributions (if any) and tax-exempt dividends paid for the 2012 calendar year on Form 1099-DIV, which will be mailed in early 2013.

PROXY RESULTS (Unaudited)

Common Shareholders and holders of APS voted together as a single class (except as noted below) on the following proposal presented at the annual shareholders' meeting held on June 22, 2012.

| | Shares | |
|---|------------|--------------------|
| | For | Authority Withheld |
| To elect one Class I Director: [†] | | |
| Clifford L. Alexander, Jr. | 17,950,533 | 726,600 |

[†] The term of this Class I Director expires in 2015.

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INFORMATION ABOUT THE RENEWAL OF THE FUND'S MANAGEMENT AGREEMENT (Unaudited)

At a meeting of the fund's Board of Directors held on July 18 and 19, 2012, the Board considered the renewal of the fund's Management Agreement pursuant to which Dreyfus provides the fund with investment advisory and administrative services (the "Agreement"). The Board members, none of whom are "interested persons" (as defined in the Investment Company Act of 1940, as amended) of the fund, were assisted in their review by independent legal counsel and met with counsel in executive session separate from Dreyfus representatives. In considering the renewal of the Agreement, the Board considered all factors that it believed to be relevant, including those discussed below. The Board did not identify any one factor as dispositive, and each Board member may have attributed different weights to the factors considered.

Analysis of Nature, Extent, and Quality of Services Provided to the Fund. The Board considered information previously provided to them in presentations from Dreyfus representatives regarding the nature, extent, and quality of the services provided to funds in the Dreyfus fund complex, and Dreyfus representatives confirmed that there had been no material changes in this information.

Dreyfus representatives noted that the fund is a closed-end fund without daily inflows and outflows of capital, and provided the fund's asset size. Dreyfus also had previously provided information regarding the diverse intermediary relationships and distribution channels of funds in the Dreyfus fund complex and Dreyfus' corresponding need for broad, deep, and diverse resources to be able to provide ongoing shareholder services to intermediaries and shareholders.

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

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INFORMATION ABOUT THE RENEWAL OF THE FUND'S MANAGEMENT AGREEMENT (Unaudited) (continued)

Comparative Analysis of the Fund's Performance and Management Fee and Expense Ratio. The Board reviewed reports prepared by Lipper, Inc. ("Lipper"), an independent provider of investment company data, which included information comparing (1) the fund's performance with the performance of a group of comparable funds (the "Performance Group") and with a broader group of funds (the "Performance Universe"), all for various periods ended May 31, 2012, and (2) the fund's actual and contractual management fees and total expenses with those of a group of comparable funds (the "Expense Group") and with a broader group of funds (the "Expense Universe"), the information for which was derived in part from fund financial statements available to Lipper as of the date of its analysis. Dreyfus previously had furnished the Board with a description of the methodology Lipper used to select the Performance Group and Performance Universe and the Expense Group and Expense Universe.

Dreyfus representatives stated that the usefulness of performance comparisons may be affected by a number of factors, including different investment limitations that may be applicable to the fund and comparison funds. The Board discussed the results of the comparisons and noted that the fund's total return performance, on a net asset value basis, was above the Performance Group median for five of the six periods and above the Performance Universe median for four of the six periods, and that the total return performance, on a market price basis, was above the Performance Group median for four of the six periods and above the Performance Universe median for all periods. The Board also noted that the fund's yield performance, on a net asset value basis and on a market price basis, was variously above and below the Performance Group and Performance Universe medians for the various one-year periods ended May 31st. Dreyfus also provided a comparison of the fund's calendar year total returns to the returns of the fund's benchmark index.

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The Board also reviewed the range of actual and contractual management fees and total expenses of the Expense Group and Expense Universe funds and discussed the results of the comparisons. The Board noted that the fund's contractual management fee, based on common assets alone,

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was above the Expense Group median, the fund's actual management fee and total expenses, based on common and preferred assets together, were above the Expense Group and Expense Universe medians, the fund's actual management fee, based on common assets alone, was above the Expense Group and Expense Universe medians and the fund's total expenses, based on common assets alone, were below the Expense Group and Expense Universe medians.

Dreyfus representatives reviewed with the Board the management or investment advisory fees (1) paid by funds advised or administered by Dreyfus that are in the same Lipper category as the fund and (2) paid to Dreyfus or the Dreyfus-affiliated primary employer of the fund's primary portfolio manager(s) for advising any separate accounts and/or other types of client portfolios that are considered to have similar investment strategies and policies as the fund (the "Similar Clients"), and explained the nature of the Similar Clients. They discussed differences in fees paid and the relationship of the fees paid in light of any differences in the services provided and other relevant factors. The Board considered the relevance of the fee information provided for the Similar Clients to evaluate the appropriateness and reasonableness of the fund's management fee.

Analysis of Profitability and Economies of Scale. Dreyfus representatives reviewed the expenses allocated and profit received by Dreyfus and the resulting profitability percentage for managing the fund, and the method used to determine the expenses and profit. The Board concluded that the profitability results were not unreasonable, given the services rendered and service levels provided by Dreyfus. The

The Fund

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INFORMATION ABOUT THE RENEWAL OF THE FUND'S MANAGEMENT AGREEMENT (Unaudited) *(continued)*

Board previously had been provided with information prepared by an independent consulting firm regarding Dreyfus' approach to allocating costs to, and determining the profitability of, individual funds and the entire Dreyfus fund complex. The consulting firm also had analyzed where any economies of scale might emerge in connection with the management of a fund.

The Board's counsel stated that the Board should consider the profitability analysis (1) as part of the evaluation of whether the fees under the Agreement bear a reasonable relationship to the mix of services provided by Dreyfus, including the nature, extent and quality of such services, and (2) in light of the relevant circumstances for the fund and the extent to which economies of scale would be realized if the fund grows and whether fee levels reflect these economies of scale for the benefit of fund shareholders. Dreyfus representatives also noted that, as a result of shared and allocated costs among funds in the Dreyfus fund complex, the extent of economies of scale could depend substantially on the level of assets in the complex as a whole, so that increases and decreases in complex-wide assets can affect potential economies of scale in a manner that is disproportionate to, or even in the opposite direction from, changes in the fund's asset level. The Board also considered potential benefits to Dreyfus from acting as investment adviser and noted that there were no soft dollar arrangements in effect for trading the fund's investments.

At the conclusion of these discussions, the Board agreed that it had been furnished with sufficient information to make an informed business decision with respect to the renewal of the Agreement. Based on the discussions and considerations as described above, the Board concluded and determined as follows.

- The Board concluded that the nature, extent and quality of the services provided by Dreyfus are adequate and appropriate.
- The Board generally was satisfied with the fund's performance.
- The Board concluded that the fee paid to Dreyfus was reasonable in light of the considerations described above.

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- The Board determined that the economies of scale which may accrue to Dreyfus and its affiliates in connection with the management of the fund had been adequately considered by Dreyfus in connection with the fee rate charged to the fund pursuant to the Agreement and that, to the extent in the future it were determined that material economies of scale had not been shared with the fund, the Board would seek to have those economies of scale shared with the fund.

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In evaluating the Agreement, the Board considered these conclusions and determinations and also relied on its previous knowledge, gained through meetings and other interactions with Dreyfus and its affiliates, of the fund and the services provided to the fund by Dreyfus. The Board also relied on information received on a routine and regular basis throughout the year relating to the operations of the fund and the investment management and other services provided under the Agreement, including information on the investment performance of the fund in comparison to similar mutual funds and benchmark performance indices; general market outlook as applicable to the fund; and compliance reports. In addition, it should be noted that the Board's consideration of the contractual fee arrangements for this fund had the benefit of a number of years of reviews of prior or similar agreements during which lengthy discussions took place between the Board and Dreyfus representatives. Certain aspects of the arrangements may receive greater scrutiny in some years than in others, and the Board's conclusions may be based, in part, on their consideration of the same or similar arrangements in prior years. The Board determined that renewal of the Agreement was in the best interests of the fund and its shareholders.

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BOARD MEMBERS INFORMATION (Unaudited)

Joseph S. DiMartino (68)

Chairman of the Board (1995)

Current term expires in 2014

Principal Occupation During Past 5Years:

- Corporate Director and Trustee

Other Public Company Board Memberships During Past 5Years:

- CBIZ (formerly, Century Business Services, Inc.), a provider of outsourcing functions for small and medium size companies, Director (1997-present)
- Sunair Services Corporation, a provider of certain outdoor-related services to homes and businesses, Director (2005-2009)
- The Newark Group, a provider of a national market of paper recovery facilities, paperboard mills and paperboard converting plants, Director (2000-2010)

No. of Portfolios for which Board Member Serves: 157

Clifford L. Alexander, Jr. (79)

Board Member (2003)

Current term expires in 2015

Principal Occupation During Past 5Years:

- President of Alexander & Associates, Inc., a management consulting firm (January 1981-present)

No. of Portfolios for which Board Member Serves: 42

Gordon J. Davis (71)

Board Member (2012)

Current term expires in 2013

Principal Occupation During Past 5Years:

- Partner in the law firm of Venable, LLP (2012-present)
- Partner in the law firm of Dewey & LeBoeuf, LLP (1994-2012)

Other Public Company Board Memberships During Past 5Years:

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- Consolidated Edison, Inc., a utility company, Director (1997-present)
- The Phoenix Companies, Inc., a life insurance company, Director (2000-present)

No. of Portfolios for which Board Member Serves: 50

Whitney I. Gerard (77)

Board Member (1998)

Current term expires in 2013

Principal Occupation During Past 5Years:

- Partner of Chadbourne & Parke LLP

No. of Portfolios for which Board Member Serves: 23

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Nathan Leventhal (69)

Board Member (2009)

Current term expires in 2013

Principal Occupation During Past 5Years:

- Commissioner, NYC Planning Commission (March 2007-present)
- Chairman of the Avery-Fisher Artist Program (November 1997-present)

Other Public Company Board Memberships During Past 5Years:

- Movado Group, Inc., Director

No. of Portfolios for which Board Member Serves: 40

George L. Perry (78)

Board Member (1989)

Current term expires in 2014

Principal Occupation During Past 5Years:

- Economist and Senior Fellow at Brookings Institution

No. of Portfolios for which Board Member Serves: 23

Benaree Pratt Wiley (66)

Board Member (2009)

Current term expires in 2014

Principal Occupation During Past 5Years:

- Principal, The Wiley Group, a firm specializing in strategy and business development (2005-present)

Other Public Company Board Memberships During Past 5Years:

- CBIZ (formerly, Century Business Services, Inc.), a provider of outsourcing functions for small and medium size companies, Director (2008-present)

No. of Portfolios for which Board Member Serves: 64

The address of the Board Members and Officers is c/o The Dreyfus Corporation, 200 Park Avenue, New York, New York 10166.

Lucy Wilson Benson, Emeritus Board Member

David W. Burke, Emeritus Board Member

Arthur A. Hartman, Emeritus Board Member

The Fund

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OFFICERS OF THE FUND (Unaudited)

BRADLEY J. SKAPYAK, President since January 2010.

Chief Operating Officer and a director of the Manager since June 2009; from April 2003 to June 2009, Mr. Skapyak was the head of the Investment Accounting and Support Department of the Manager. He is an officer of 72 investment companies (comprised of 156 portfolios) managed by the Manager. He is 53 years old and has been an employee of the Manager since February 1988.

JANETTE E. FARRAGHER, Vice President and Secretary since December 2011.

Assistant General Counsel of BNY Mellon, and an officer of 73 investment companies (comprised of 183 portfolios) managed by the Manager. She is 49 years old and has been an employee of the Manager since February 1984.

KIESHA ASTWOOD, Vice President and Assistant Secretary since January 2010.

Counsel of BNY Mellon, and an officer of 73 investment companies (comprised of 183 portfolios) managed by the Manager. She is 39 years old and has been an employee of the Manager since July 1995.

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

Senior Counsel of BNY Mellon and Secretary of the Manager, and an officer of 73 investment companies (comprised of 183 portfolios) managed by the Manager. He is 46 years old and has been an employee of the Manager since December 1996.

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

Senior Counsel of BNY Mellon, and an officer of 73 investment companies (comprised of 183 portfolios) managed by the Manager. She is 56 years old and has been an employee of the Manager since October 1988.

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

Senior Counsel of BNY Mellon, and an officer of 73 investment companies (comprised of 183 portfolios) managed by the Manager. He is 50 years old and has been an employee of the Manager since June 2000.

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

Senior Managing Counsel of BNY Mellon, and an officer of 73 investment companies (comprised of 183 portfolios) managed by the Manager. He is 49 years old and has been an employee of the Manager since February 1991.

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

Managing Counsel of BNY Mellon, and an officer of 73 investment companies (comprised of 183 portfolios) managed by the Manager. He is 60 years old and has been an employee of the Manager since May 1986.

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

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Senior Managing Counsel of BNY Mellon, and an officer of 73 investment companies (comprised of 183 portfolios) managed by the Manager. He is 47 years old and has been an employee of the Manager since October 1990.

JAMES WINDELS, Treasurer since November 2001.

Director – Mutual Fund Accounting of the Manager, and an officer of 73 investment companies (comprised of 183 portfolios) managed by the Manager. He is 54 years old and has been an employee of the Manager since April 1985.

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RICHARD CASSARO, Assistant Treasurer since September 2007.

Senior Accounting Manager – Money Market and Municipal Bond Funds of the Manager, and an officer of 73 investment companies (comprised of 183 portfolios) managed by the Manager. He is 53 years old and has been an employee of the Manager since September 1982.

GAVIN C. REILLY, Assistant Treasurer since December 2005.

Tax Manager of the Investment Accounting and Support Department of the Manager, and an officer of 73 investment companies (comprised of 183 portfolios) managed by the Manager. He is 44 years old and has been an employee of the Manager since April 1991.

ROBERT S. ROBOL, Assistant Treasurer since August 2005.

Senior Accounting Manager – Fixed Income Funds of the Manager, and an officer of 73 investment companies (comprised of 183 portfolios) managed by the Manager. He is 48 years old and has been an employee of the Manager since October 1988.

ROBERT SALVILOLO, Assistant Treasurer since May 2007.

Senior Accounting Manager – Equity Funds of the Manager, and an officer of 73 investment companies (comprised of 183 portfolios) managed by the Manager. He is 45 years old and has been an employee of the Manager since June 1989.

ROBERT SVAGNA, Assistant Treasurer since August 2005.

Senior Accounting Manager – Equity Funds of the Manager, and an officer of 73 investment companies (comprised of 183 portfolios) managed by the Manager. He is 45 years old and has been an employee of the Manager since November 1990.

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

Chief Compliance Officer of the Manager and The Dreyfus Family of Funds (73 investment companies, comprised of 183 portfolios).

He is 55 years old and has served in various capacities with the Manager since 1980, including manager of the firm's Fund Accounting Department from 1997 through October 2001.

The Fund

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NOTES

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OFFICERS AND DIRECTORS

Dreyfus Municipal Income, Inc.

200 Park Avenue
New York, NY 10166

The fund's net asset value per share 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.

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

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For More Information

The fund files its complete schedule of portfolio holdings with the Securities and Exchange Commission ("SEC") for the first and third quarters of each fiscal year on Form N-Q. The fund's Forms N-Q are available on the SEC's website at <http://www.sec.gov> and may be reviewed and copied at the SEC's Public Reference Room in Washington, DC. Information on the operation of the Public Reference Room may be obtained by calling 1-800-SEC-0330.

Information regarding how the fund voted proxies relating to portfolio securities for the most recent 12-month period ended June 30 is available on the SEC's website at <http://www.sec.gov> and without charge, upon request, by calling 1-800-DREYFUS.

Item 2. Code of Ethics.

The Registrant has adopted a code of ethics that applies to the Registrant's principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions. There have been no amendments to, or waivers in connection with, the Code of Ethics during the period covered by this Report.

Item 3. Audit Committee Financial Expert.

The Registrant's Board has determined that Joseph S. DiMartino, a member of the Audit Committee of the Board, is an audit committee financial expert as defined by the Securities and Exchange Commission (the "SEC"). Joseph S. DiMartino is "independent" as defined by the SEC for purposes of audit committee financial expert determinations.

Item 4. Principal Accountant Fees and Services.

(a) **Audit Fees.** The aggregate fees billed for each of the last two fiscal years (the "Reporting Periods") for professional services rendered by the Registrant's principal accountant (the "Auditor") for the audit of the Registrant's

annual financial statements or services that are normally provided by the Auditor in connection with the statutory and regulatory filings or engagements for the Reporting Periods, were \$ 30,312 in 2011 and \$32,015 in 2012. These services

(b) Audit-Related Fees. The aggregate fees billed in the Reporting Periods for assurance and related services by the Auditor that are reasonably related to the performance of the audit of the Registrant's financial statements and are not reported under paragraph (a) of this Item 4 were \$24,662 in 2011 and \$32,442 in 2012. These services consisted of one or more of the following: (i) agreed upon procedures related to compliance with Internal Revenue Code section 817(h), (ii) security counts required by Rule 17f-2 under the Investment Company Act of 1940, as amended, (iii) advisory services as to the accounting or disclosure treatment of Registrant transactions or events, (iv) advisory services to the accounting or disclosure treatment of the actual or potential impact to the Registrant of final or proposed rules, standards or interpretations by the Securities and Exchange Commission, the Financial Accounting Standards Boards or other regulatory or standard-setting bodies and (v) agreed upon procedures in evaluating compliance by the Fund with provisions of the Fund's articles supplementary, creating the series of the auction rate preferred stock.

The aggregate fees billed in the Reporting Periods for non-audit assurance and related services by the Auditor to the Registrant's investment adviser (not including any sub-investment adviser whose role is primarily portfolio management and is subcontracted with or overseen by another investment adviser), and any entity controlling, controlled by or under common control with the investment adviser that provides ongoing services to the Registrant ("Service Affiliates"), that were reasonably related to the performance of the annual audit of the Service Affiliate, which required pre-approval by the Audit Committee were \$0 in 2011 and \$0 in 2012.

(c) Tax Fees. The aggregate fees billed in the Reporting Periods for professional services rendered by the Auditor for tax compliance, tax advice, and tax planning ("Tax Services") were \$2,731 in 2011 and \$3,267 in 2012. These services consisted of: (i) review or preparation of U.S. federal, state, local and excise tax returns; (ii) U.S. federal, state and local tax planning, advice and assistance regarding statutory, regulatory or administrative developments; (iii) tax advice regarding tax qualification matters and/or treatment of various financial instruments held or proposed to be acquired or held. The aggregate fees billed in the Reporting Periods for Tax Services by the Auditor to Service Affiliates, which required pre-approval by the Audit Committee were \$0 in 2011 and \$0 in 2012.

(d) All Other Fees. The aggregate fees billed in the Reporting Periods for products and services provided by the Auditor, other than the services reported in paragraphs (a) through (c) of this Item, were \$80 in 2011 and \$0 in 2012. [These services consisted of a review of the Registrant's anti-money laundering program].

The aggregate fees billed in the Reporting Periods for Non-Audit Services by the Auditor to Service Affiliates, other than the services reported in paragraphs (b) through (c) of this Item, which required pre-approval by the Audit Committee, were \$0 in 2011 and \$200,000 in 2012.

(e)(1) Audit Committee Pre-Approval Policies and Procedures. The Registrant's Audit Committee has established policies and procedures (the "Policy") for pre-approval (within specified fee limits) of the Auditor's engagements for non-audit services to the Registrant and Service Affiliates without specific case-by-case consideration. The pre-approved services in the Policy can include pre-approved audit services, pre-approved audit-related services, pre-approved tax services and pre-approved all other services. Pre-approval considerations include whether the proposed services are compatible with maintaining the Auditor's independence. Pre-approvals pursuant to the Policy are considered annually.

(e)(2) Note: None of the services described in paragraphs (b) through (d) of this Item 4 were approved by the Audit Committee pursuant to paragraph (c)(7)(i)(C) of Rule 2-01 of Regulation S-X.

(f) None of the hours expended on the principal accountant's engagement to audit the registrant's financial statements for the most recent fiscal year were attributed to work performed by persons other than the principal accountant's full-time, permanent employees.

Non-Audit Fees. The aggregate non-audit fees billed by the Auditor for services rendered to the Registrant, and rendered to Service Affiliates, for the Reporting Periods were \$16,565,359 in 2011 and \$43,887,310 in 2012.

Auditor Independence. The Registrant's Audit Committee has considered whether the provision of non-audit services that were rendered to Service Affiliates, which were not pre-approved (not requiring pre-approval), is compatible with maintaining the Auditor's independence.

Item 5. Audit Committee of Listed Registrants.

The Registrant is a listed issuer as defined in Rule 10A-3 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The Registrant has a separately-designated standing audit committee established in

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accordance with Section 3(a)(58)(A) of the Exchange Act and the following persons constitute the Audit Committee and full Board of Trustees of the Registrant:

Joseph S. DiMartino

Clifford L. Alexander

Gordon J. Davis

Whitney Gerard

Nathan Leventhal

George L. Perry

Benaree Pratt Wiley

The Fund has determined that each member of the Audit Committee of the Registrant is not an “interested person” of the Registrant as defined in section 2(a)(19) of the Investment Company Act of 1940, as amended, and for purposes of Rule 10A-3(b)(1)(iii) under the Exchange Act, is considered independent.

Item 6. Investments.

(a) 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.

(a) (1) The following information is as of November 20, 2012:

Daniel A. Barton and Steven Harvey manage the Registrant.

(a) (2) The following information is as of the Registrant's most recently completed fiscal year, except where otherwise noted:

Portfolio Managers. The Manager manages the Fund's portfolio of investments in accordance with the stated policies of the Fund, subject to the approval of the Fund's Board members. The Manager is responsible for investment decisions and provides the Fund with portfolio managers who are authorized by the Fund's Board to execute purchases and sales of securities. The Fund's portfolio managers are Daniel A. Barton and Steven Harvey. The Manager also maintains a research department with a professional staff of portfolio managers and securities analysts who provide research services for the Fund and for other funds advised by the Manager.

Portfolio Manager Compensation. The portfolio managers' compensation is comprised primarily of a market-based salary and an incentive compensation plan (annual and long-term). Funding for the Standish Incentive Plan is through a pre-determined fixed percentage of overall company profitability. Therefore, all bonus awards are based initially on Standish's overall performance as opposed to the performance of a single product or group. All investment professionals are eligible to receive incentive awards. Cash awards are payable in the February month end pay of the following year. Most of the awards granted have some portion deferred for three years in the form of deferred cash, BNY Mellon equity, interests in investment vehicles (consisting of investments in a range of Standish products), or a combination of the above. Individual awards for portfolio managers are discretionary, based on both individual and multi-sector product risk adjusted performance relative to both benchmarks and peer comparisons over one year, three year and five year periods. Also considered in determining individual awards are team participation and general contributions to Standish. Individual objectives and goals are also established at the beginning of each calendar year and are taken into account. Portfolio managers whose compensation exceeds certain levels may elect to defer portions of their base salaries and/or incentive compensation pursuant to BNY Mellon's Elective Deferred Compensation Plan.

Additional Information About the Portfolio Managers. The following table lists the number and types of other accounts advised by the Fund's primary portfolio manager and assets under management in those accounts as of the end of the Fund's fiscal year:

| <u>Portfolio Manager</u> | <u>Registered Investment Company Accounts</u> | <u>Assets Managed</u> | <u>Pooled Accounts</u> | <u>Assets Managed</u> | <u>Other Accounts</u> | <u>Assets Managed</u> |
|--------------------------|---|-----------------------|------------------------|-----------------------|-----------------------|-----------------------|
| Daniel A. Barton | 6 | \$2,877.6M | 0 | \$0 | 0 | \$0 |
| Steven Harvey | 7 | \$3,252.1M | 5 | \$1,247.5M | 425 | \$5,991.6M |

None of the funds or accounts are subject to a performance-based advisory fee.

The dollar range of Fund shares beneficially owned by the primary portfolio manager are as follows as of the end of the Fund's fiscal year:

| <u>Portfolio Manager</u> | <u>Fund Name</u> | <u>Dollar Range of Fund Shares Beneficially Owned</u> |
|--------------------------|--------------------------------|---|
| Daniel A. Barton | Dreyfus Municipal Income, Inc. | None |
| Steven Harvey | Dreyfus Municipal Income, Inc. | None |

Portfolio managers at Dreyfus may manage multiple accounts for a diverse client base, including mutual funds, separate accounts (assets managed on behalf of institutions such as pension funds, insurance companies and foundations), bank common trust accounts and wrap fee programs ("Other Accounts").

Potential conflicts of interest may arise because of Dreyfus' management of the Fund and Other Accounts. For example, conflicts of interest may arise with both the aggregation and allocation of securities transactions and allocation of limited investment opportunities, as Dreyfus may be perceived as causing accounts it manages to participate in an offering to increase Dreyfus' overall allocation of securities in that offering, or to increase Dreyfus' ability to participate in future offerings by the same underwriter or issuer. Allocations of bunched trades, particularly trade orders that were only partially filled due to limited availability, and allocation of investment opportunities generally, could raise a potential conflict of interest, as Dreyfus may have an incentive to allocate securities that are expected to increase in value to preferred accounts. Initial public offerings, in particular, are frequently of very limited availability. Additionally, portfolio managers may be perceived to have a conflict of interest if there are a large number of Other Accounts, in addition to the Fund, that they are managing on behalf of Dreyfus. Dreyfus periodically reviews each portfolio manager's overall responsibilities to ensure that he or she is able to allocate the necessary time and resources to effectively manage the Fund. In addition, Dreyfus could be viewed as having a conflict of interest to the extent that Dreyfus or its affiliates and/or portfolios managers have a materially larger

investment in Other Accounts than their investment in the Fund.

Other Accounts may have investment objectives, strategies and risks that differ from those of the Fund. For these or other reasons, the portfolio manager may purchase different securities for the Fund and the Other Accounts, and the performance of securities purchased for the Fund may vary from the performance of securities purchased for Other Accounts. The portfolio manager may place transactions on behalf of Other Accounts that are directly or indirectly contrary to investment decisions made for the Fund, which could have the potential to adversely impact the Fund, depending on market conditions.

A potential conflict of interest may be perceived to arise if transactions in one account closely follow related transactions in another account, such as when a purchase increases the value of securities previously purchased by the other account, or when a sale in one account lowers the sale price received in a sale by a second account.

Conflicts of interest similar to those described above arise when portfolio managers are employed by a sub-investment adviser or are dual employees of the Manager and an affiliated entity and such portfolio managers also manage other accounts.

Dreyfus' goal is to provide high quality investment services to all of its clients, while meeting Dreyfus' fiduciary obligation to treat all clients fairly. Dreyfus has adopted and implemented policies and procedures, including brokerage and trade allocation policies and procedures, that it believes address the conflicts associated with managing multiple accounts for multiple clients. In addition, Dreyfus monitors a variety of areas, including compliance with Fund guidelines, the allocation of IPOs, and compliance with the firm's Code of Ethics. Furthermore, senior investment and business personnel at Dreyfus periodically review the performance of Dreyfus' portfolio managers.

Item 9. Purchases of Equity Securities by Closed-End Management Investment Companies and Affiliated Purchasers.

Not applicable.

Item 10. Submission of Matters to a Vote of Security Holders.

There have been no material changes to the procedures applicable to Item 10.

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.

(a)(1) Code of ethics referred to in Item 2.

(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/ Bradley J. Skapyak

Bradley J. Skapyak,

President

Date: November 20, 2012

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.

By: /s/ Bradley J. Skapyak

Bradley J. Skapyak,

President

Date: November 20, 2012

By: /s/ James Windels

James Windels,

Treasurer

Date: November 20, 2012

EXHIBIT INDEX

(a)(1) Code of ethics referred to in Item 2.

(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)