

DREYFUS CALIFORNIA MUNICIPAL INCOME INC  
Form N-30D  
June 04, 2003

Dreyfus California Municipal

Income, Inc.

SEMIANNUAL REPORT March 31, 2003

DREYFUS CALIFORNIA 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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THE FUND

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The Fund

Dreyfus California  
Municipal Income, Inc.

LETTER FROM THE CHAIRMAN

Dear Shareholder:

This semiannual report for Dreyfus California Municipal Income, Inc. covers the six-month period from October 1, 2002, through March 31, 2003. Inside, you'll find valuable information about how the fund was managed during the reporting period, including a discussion with the fund's portfolio manager, Joseph Darcy.

A number of economic and political factors continued to support higher municipal bond prices during the reporting period. Faced with escalating tensions leading to the start of the war in Iraq, many investors preferred fixed-income securities over stocks. We believe that rising geopolitical tensions also contributed to the ongoing sluggishness of the U.S. economy, as many corporations apparently decided to wait until the situation in Iraq is resolved before committing to new capital spending. For its part, the Federal Reserve Board contributed to the municipal bond market's strength by further reducing short-term interest rates in November 2002.

The result of these influences has been generally attractive total returns from high-quality, tax-exempt bonds. While history suggests that bond prices should moderate if the economy strengthens, we believe that the economy is unlikely to make significant gains until current uncertainties are resolved.

In the meantime, we believe it is more important than ever to follow a disciplined approach to investing. While it may be tempting to shift assets between stocks and bonds in response to near-term economic and market forces,

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adherence to your longstanding asset allocation strategy may be the most prudent course for the long term. Your financial advisor can help you to ensure that your portfolio reflects your investment needs, long-term goals and attitudes toward risk.

Thank you for your continued confidence and support.

Sincerely,

Stephen E. Canter  
Chairman and Chief Executive Officer  
The Dreyfus Corporation  
April 15, 2003

### DISCUSSION OF FUND PERFORMANCE

Joseph Darcy, Portfolio Manager

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

For the six-month period ended March 31, 2003, the fund achieved a total return of 1.38%. (1) Over the same period, the fund provided income dividends of \$0.2280 per share, which is equal to a distribution rate of 5.74%. (2)

The fund and California's municipal bond market were primarily influenced during the reporting period by a shortfall in tax revenues, which led to higher volumes of bond issuance. With a record supply of bonds competing for investor interest, prices of California bonds did not rise as much as bonds from many other states when interest rates declined.

What is the fund's investment approach?

The fund seeks to maximize current income exempt from federal and California personal income taxes to the extent consistent with the preservation of capital. During periods of normal market conditions, the fund invests 100% of the value of its net assets in California municipal obligations. The fund invests in municipal obligations which, at the time of purchase, are rated investment-grade or the unrated equivalent as determined by Dreyfus in the case of bonds, and rated in the two highest rating categories or the unrated equivalent as determined by Dreyfus in the case of short-term obligations having, or deemed to have, maturities of less than one year.

We have constructed a portfolio by looking for income opportunities through analysis of each bond's structure, including paying close attention to a bond's yield, maturity and early redemption features.

The Fund

### DISCUSSION OF FUND PERFORMANCE (CONTINUED)

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 what we believe are comparable securities, albeit with yields that reflect the then-current interest-rate environment. When we believe that an opportunity presents itself, we seek to upgrade the portfolio's investments with bonds that, in our opinion, have better structural or income characteristics than existing holdings. When such opportunities arise, we usually will look to sell bonds that

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are close to redemption or maturity.

What other factors influenced the fund's performance?

The reporting period was difficult for California's bond market. Because the U.S. economy grew only modestly, the state received less revenue from income taxes, sales taxes and capital gains taxes than it had projected. Faced with a budget deficit estimated at more than \$34 billion, the state attempted to bridge some of the gap by issuing municipal bonds. At the same time, several of the major, independent rating services downgraded California's credit rating to the single-A range, effectively increasing the state's borrowing costs and reducing existing bond prices.

The credit-rating downgrade and surge in the supply of newly issued bonds contributed to heightened market volatility. Because of the state's relatively high tax rates, California bonds historically have tended to trade at higher prices than bonds of other states. During much of the reporting period, however, California bonds traded at a slight discount, as the surge in new issuance put downward pressure on prices. As a result, California's bonds generally produced lower total returns than bonds from other states.

The effects of California's budget problems might have been more severe had it not been for generally favorable market conditions on the national level. The Federal Reserve Board's attempts to stimulate renewed economic growth included lower interest rates, which drove bond yields lower and prices higher, contributing positively to the fund's total return.

In addition, the fund's performance was influenced positively when, early in the reporting period, we eliminated its holdings of bonds issued on behalf of airlines. The fund avoided further losses as these bonds continued to decline in a troubled business climate for the U.S. travel industry.

What is the fund's current strategy?

We continue to monitor California's fiscal condition. As market volatility increased during the reporting period, we attempted to diversify the fund's holdings away from the state's general obligation bonds into securities from local issuers we considered fiscally sound, including counties and essential-services facilities, such as revenue-producing water and sewer plants. However, we are aware that proposed cuts in state aid could affect some localities adversely, and we are prepared to alter our strategy accordingly.

In addition, we have maintained the fund's weighted average maturity at points that we consider in line with or modestly shorter than those of other similar funds. This strategy is designed to provide flexibility to pursue investment opportunities as they become available.

April 15, 2003

- (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 RETURNS FLUCTUATE. INCOME MAY BE SUBJECT TO STATE AND LOCAL TAXES FOR NON-CALIFORNIA RESIDENTS, 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, ANNUALIZED, DIVIDED BY THE MARKET PRICE PER SHARE AT THE END OF THE PERIOD.

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The Fund

STATEMENT OF INVESTMENTS

March 31, 2003 (Unaudited)

STATEMENT OF INVESTMENTS

LONG-TERM MUNICIPAL INVESTMENTS--90.3%

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 CALIFORNIA--77.3%

Abag Financial Authority For Nonprofit Corps.:

Revenue (Sansum-Santa Barbara) 5.50%, 4/1/2021 2,0

MFHR (Central Park Apartments) 5.60%, 7/1/2038 8

Bakersfield Central District Development Agency,

Tax Allocation Revenue

(Downtown Bakersfield Redevelopment)

6.625%, 4/1/2015 (Prerefunded 4/1/2003) 1,0

California 9.55%, 12/1/2018 3

California Health Facilities Financing Authority, Revenue:

Health Facilities Financing

(Cedars-Sinai Medical Center) 6.125%, 12/1/2030 1,0

(Sutter Health) 6.25%, 8/15/2035 7

California Pollution Control Finance Authority:

PCR 10.330%, 6/1/2014 1,0

SWDR:

(Browning Ferris Industries):

5.80%, 12/1/2016 2,0

6.75%, 9/1/2019 6

(Keller Canyon Landfill Co. Project)

6.875%, 11/1/2027 1,0

California Statewide Communities Development Authority,

COP (Catholic Healthcare) 6.50%, 7/1/2020 5

Capistrano Unified School District, Special Tax

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(Community Facilities District Number 98-2-Ladera)

5.75%, 9/1/2029

1,0

Central California Joint Powers Health Financing  
 Authority, COP (Community Hospitals of  
 Central California) 6%, 2/1/2030

1,0

Emeryville Public Financing Authority, Revenue  
 (Shellmound Park Redevelopment Project)

6.80%, 5/1/2014 (Prerefunded 5/1/2004)

5

Escondido Improvement Bond, Act of 1915

(Reassessment District Number 98) 5.70%, 9/2/2026

4

Foothill/Eastern Transportation Corridor Agency,

Toll Road Revenue 5.75%, 1/15/2040

5

Long Beach Special Tax Community Facilities District

Number 5 (Towne Center) 6.875%, 10/1/2025

5

Palmdale Civic Authority, Revenue

(Merged Redevelopment Project Areas):

6.60%, 9/1/2034 (Prerefunded 9/1/2004)

5

6.60%, 9/1/2034

4

LONG-TERM MUNICIPAL INVESTMENTS (CONTINUED)

Pri  
 Amou

CALIFORNIA (CONTINUED)

Redwood Empire Financing Authority, COP

6.40%, 12/1/2023

2,7

Sacramento County, Community  
 Facilities District Number 1,

Special Tax 5.70%, 12/1/2020

7

Sacramento City Financing Authority, Revenue

9.22%, 12/1/2014

5

Sacramento County Housing Authority, MFHR

(Cottage Estate Apartments) 6%, 2/1/2033

1,0

Sacramento Municipal Utility District,  
 Electric Revenue 9.895%,  
 11/15/2015 (Insured; MBIA)

1,0

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San Diego County, COP:

5.70%, 2/1/2028 1,0

(Burnham Institute) 6.25%, 9/1/9029 1,0

Santa Cruz County Public Financing Authority,

Tax Allocation Revenue 6.20%, 9/1/2023 2,0

South Placer Authority, Wastewater Revenue

5.25%, 11/1/2027 (Insured; FGIC) 1,0

Torrance Redevelopment Agency, Tax

Allocation Revenue 5.625%, 9/1/2028 5

Turlock Health Facility, COP

(Emanuel Medical Center)

5.75%, 10/15/2023 2,5

Valley Health System, HR (Improvement Project)

6.50%, 5/15/2025 5

U.S. RELATED--13.0%

Commonwealth of Puerto Rico

Highway and Transportation Authority,

Transportation Revenue 8.74%, 7/1/2038 1,0

Commonwealth of Puerto Rico

Infrastructure Financing Authority,

Special Tax Revenue 8.585%, 7/1/2015 1,0

Guam Power Authority, Revenue 6.75%, 10/1/2024

(Prerefunded 10/1/2004) 1,0

Virgin Islands Public Finance Authority,

Revenue, Subordinated Lien-Fund

Loan Notes 6%, 10/1/2022 2,0

TOTAL LONG--TERM MUNICIPAL INVESTMENTS

(cost \$35,249,629)

STATEMENT OF INVESTMENTS (Unaudited) (CONTINUED)

SHORT-TERM MUNICIPAL INVESTMENTS--8.1%

-----  
CALIFORNIA;

California Department of Water Resources,

Power Supply Revenue, VRDN:

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1.20%, Series B-2 (LOC; Westdeutsche Landesbank, Bayerische Landesbank)	1,0
1.20%, Series B-5  (LOC; Banque Nationale de Paris)	1
Irvine Improvement Bond Act 1915, Limited Obligation, VRDN  (Assessment District No. 93-14)  1.15% (LOC; Bank of America, N.A.)	4
Metropolitan Water District, Southern California Waterworks, Revenue, VRDN 1.15%	1,8
TOTAL SHORT-TERM MUNICIPAL INVESTMENTS  (cost \$3,300,000)	

TOTAL INVESTMENTS (cost \$38,549,629)

CASH AND RECEIVABLES (NET)

NET ASSETS

Summary of Abbreviations

COP	Certificate of Participation
HR	Hospital Revenue
LOC	Letter of Credit
FGIC	Financial Guaranty Insurance Company
MBIA	Municipal Bond Investors Assurance Insurance Corporation
MFHR	Multi-Family Housing Revenue
PCR	Pollution Control Revenue
SWDR	Solid Waste Disposal Revenue
VRDN	Variable Rate Demand Notes

Summary of Combined Ratings (Unaudited)

Fitch	or	Moody's	or	Standard & Poor's
AAA		Aaa		AAA



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A	A	A
BBB	Baa	BBB
BB	Ba	BB
F1	MIG1/P1	SP1/A1
Not Rated (e)	Not Rated( e)	Not Rated (e)

- (A) BONDS WHICH ARE PREREFUNDED ARE COLLATERALIZED BY U.S. GOVERNMENT SECURITIES WHICH ARE HELD IN ESCROW AND ARE USED TO PAY PRINCIPAL AND INTEREST ON THE MUNICIPAL ISSUE AND TO RETIRE THE BONDS IN FULL AT THE EARLIEST REFUNDING DATE.
- (B) INVERSE FLOATER SECURITY--THE INTEREST RATE IS SUBJECT TO CHANGE PERIODICALLY.
- (C) SECURITIES EXEMPT FROM REGISTRATION UNDER RULE 144A OF THE SECURITIES ACT OF 1933. THESE SECURITIES MAY BE RESOLD IN TRANSACTIONS EXEMPT FROM REGISTRATION, NORMALLY TO A QUALIFIED INSTITUTIONAL BUYERS. AT MARCH 31, 2003, THESE SECURITIES AMOUNTED TO \$5,046,986 OR 12.3% OF NET ASSETS.
- (D) SECURITIES PAYABLE ON DEMAND. VARIABLE INTEREST RATE--SUBJECT TO PERIODIC CHANGE.
- (E) SECURITIES WHICH, WHILE NOT RATED BY FITCH, MOODY'S AND STANDARD & POOR'S, HAVE BEEN DETERMINED BY THE MANAGER TO BE OF COMPARABLE QUALITY TO THOSE RATED SECURITIES IN WHICH THE FUND MAY INVEST.

SEE NOTES TO FINANCIAL STATEMENTS.

The Fund

STATEMENT OF ASSETS AND LIABILITIES

March 31, 2003 (Unaudited)

	Cost	Value
-----		
ASSETS (\$):		
Investments in securities--See Statement of Investments	38,549,629	40,262,831
Cash		26,906
Interest receivable		715,837
Prepaid expenses		3,425
		41,008,999
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LIABILITIES (\$):		
Due to The Dreyfus Corporation and affiliates		29,360

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Accrued expenses	45,493
	74,853

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NET ASSETS (\$)	40,934,146
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COMPOSITION OF NET ASSETS (\$):

Paid-in capital	42,300,908
Accumulated undistributed investment income--net	231,422
Accumulated net realized gain (loss) on investments	(3,311,386)
Accumulated net unrealized appreciation (depreciation) on investments	1,713,202

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NET ASSETS (\$)	40,934,146
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SHARES OUTSTANDING

(110 million shares of \$.001 par value Common Stock authorized)	4,572,972
NET ASSET VALUE per share (\$)	8.95

SEE NOTES TO FINANCIAL STATEMENTS.

STATEMENT OF OPERATIONS

Six Months Ended March 31, 2003 (Unaudited)

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INVESTMENT INCOME (\$):

INTEREST INCOME	1,196,380
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EXPENSES:

Management fee--Note 3(a)	141,727
Auditing fees	18,169
Shareholders' reports	12,800
Shareholder servicing costs--Note 3(b)	10,552
Legal fees	9,918
Registration fees	2,086
Custodian fees--Note 3(b)	1,955
Directors' fees and expenses--Note 3(c)	1,880
Miscellaneous	5,409

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TOTAL EXPENSES	204,496
INVESTMENT INCOME--NET	991,884

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

Net realized gain (loss) on investments	(1,506,471)
Net unrealized appreciation (depreciation) on investments	949,734
NET REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS	(556,737)
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	435,147

SEE NOTES TO FINANCIAL STATEMENTS.

The Fund

STATEMENT OF CHANGES IN NET ASSETS

	Six Months Ended March 31, 2003 (Unaudited)	Year Ended September 30, 2002
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OPERATIONS (\$):

Investment income--net	991,884	2,207,729
Net realized gain (loss) on investments	(1,506,471)	65,428
Net unrealized appreciation (depreciation) on investments	949,734	(715,270)
NET INCREASE (DECREASE) IN NET ASSETS		
RESULTING FROM OPERATIONS	435,147	1,557,887

DIVIDENDS TO SHAREHOLDERS FROM (\$):

Investment income--net	(1,042,638)	(2,085,275)
TOTAL INCREASE (DECREASE) IN NET ASSETS	(607,491)	(527,388)

NET ASSETS (\$):

Beginning of Period	41,541,637	42,069,025
END OF PERIOD	40,934,146	41,541,637
Undistributed investment income--net	231,422	254,533

SEE NOTES TO FINANCIAL STATEMENTS.

FINANCIAL HIGHLIGHTS

The following table describes the performance for the fiscal periods indicated.

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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 marketprice data for the fund's shares.

	Six Months Ended March 31, 2003  (Unaudited)	2002 (a)	Year Ended September	
			2001	2000
<hr style="border-top: 1px dashed black;"/>				
PER SHARE DATA (\$):				
Net asset value, beginning of period	9.08	9.20	8.88	8.98
Investment Operations:				
Investment income--net	.22 (b)	.48 (b)	.49	.48
Net realized and unrealized				
gain (loss) on investments	(.12)	(.14)	.30	(.06)
Total from Investment Operations	.10	.34	.79	.42
Distributions:				
Dividends from investment income--net	(.23)	(.46)	(.47)	(.52)
Net asset value, end of period	8.95	9.08	9.20	8.88
Market value, end of period	7.94	8.31	8.30	8 1_4
<hr style="border-top: 1px dashed black;"/>				
TOTAL RETURN (%) (C)	(1.72) (d)	5.64	6.31	(8.70)
<hr style="border-top: 1px dashed black;"/>				
RATIOS/SUPPLEMENTAL DATA (%):				
Ratio of expenses to average net assets	1.01 (e)	.98	.95	1.07
Ratio of net investment income to average net assets	4.90 (e)	5.35	5.36	5.54
Portfolio Turnover Rate	5.30 (d)	10.23	4.26	20.44
<hr style="border-top: 1px dashed black;"/>				
Net Assets, end of period (\$ x 1,000)	40,934	41,542	42,069	40,617

(A) AS REQUIRED, EFFECTIVE OCTOBER 1, 2001, THE FUND HAS ADOPTED THE PROVISIONS OF THE AICPA AUDIT AND ACCOUNTING GUIDE FOR INVESTMENT COMPANIES AND BEGAN AMORTIZING DISCOUNT OR PREMIUM ON A SCIENTIFIC BASIS FOR DEBT SECURITIES ON A DAILY BASIS. THE EFFECT OF THIS CHANGE FOR THE PERIOD ENDED SEPTEMBER 30, 2002 WAS TO INCREASE NET INVESTMENT

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INCOME PER SHARE AND DECREASE NET REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS PER SHARE BY LESS THAN \$.01 AND INCREASED THE RATIO OF NET INVESTMENT INCOME TO AVERAGE NET ASSETS FROM 5.34% TO 5.35%. PER SHARE DATA AND RATIOS/SUPPLEMENTAL DATA FOR PERIODS PRIOR TO OCTOBER 1, 2001 HAVE NOT BEEN RESTATED TO REFLECT THIS CHANGE IN PRESENTATION.

- (B) BASED ON AVERAGE SHARES OUTSTANDING AT EACH MONTH END.
- (C) CALCULATED BASED ON MARKET VALUE.
- (D) NOT ANNUALIZED.
- (E) ANNUALIZED.

SEE NOTES TO FINANCIAL STATEMENTS.

The Fund

NOTES TO FINANCIAL STATEMENTS (Unaudited)

NOTE 1--Significant Accounting Policies:

Dreyfus California 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 and California personal income taxes to the extent consistent with the preservation of capital. The Dreyfus Corporation (the "Manager") serves as the fund's investment adviser. The Manager is a direct subsidiary of Mellon Bank, N.A. ("Mellon"), which is a wholly-owned subsidiary of Mellon Financial Corporation. The fund's shares trade on the American Stock Exchange under the ticker symbol DCG.

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

(a) Portfolio valuation: Investments in municipal debt securities (excluding options and financial futures on municipal and U.S. Treasury securities) are valued on the last business day of each week and month by an independent pricing service (the "Service") approved by the Board of Directors. Investments for which quoted bid prices are readily available and are representative of the bid side of the market in the judgment of the Service are valued at the mean between the quoted bid prices (as obtained by the Service from dealers in such securities) and asked prices (as calculated by the Service based upon its evaluation of the market for such securities). Other investments (which constitute a majority of the portfolio securities) are carried at fair value as determined by the Service, based on methods which include consideration of: yields or prices of municipal securities of comparable quality, coupon, maturity and type; indications as to values from dealers; and general market conditions. Options and financial futures on municipal and U.S. Treasury securities are valued at the last sales price on the securities exchange on which such securities are primarily traded or at the last sales price on the national securities market on the last business day of each week and month.

(b) Securities transactions and investment income: Securities transactions are recorded on a trade date basis. Realized gain and loss from securities transactions are recorded on the identified cost basis. Interest income, adjusted for amortization of discount and premium on investments, is earned from settlement date and recognized on the accrual basis. Securities purchased or

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sold on a when-issued or delayed-delivery basis may be settled a month or more after the trade date.

The fund follows an investment policy of investing primarily in municipal obligations of one state. Economic changes affecting the state and certain of its public bodies and municipalities may affect the ability of issuers within the state to pay interest on, or repay principal of, municipal obligations held by the fund.

(c) Dividends to shareholders: Dividends are recorded on the ex-dividend date. Dividends from investment income-net are declared and paid monthly. Dividends from net realized capital gain, if any, are normally declared and paid annually, but the fund may make distributions on a more frequent basis to comply with the distribution requirements of the Internal Revenue Code of 1986, as amended (the " Code" ). To the extent that net realized capital gain can be offset by capital loss carryovers, it is the policy of the fund not to distribute such gain.

For shareholders who elect to receive their distributions in additional shares of the fund, in lieu of cash, such distributions will be reinvested at the lower of the market price or net asset value per share (but not less than 95% of the market price) based on the record date's respective prices. If the net asset value per share on the record date is lower than the market price per share, shares will be issued by the fund at the record date's net asset value on the payable date of the distribution. If the net asset value per share is less than 95% of the market value, shares will be issued by the fund at 95% of the market value. If the market price is lower than the net asset value per share on the record date, Mellon will purchase fund shares in the open market commencing on the payable date and reinvest those shares accordingly. As a result of purchasing fund shares in the open market, fund shares outstanding will not be affected by this form of reinvestment.

The Fund

### NOTES TO FINANCIAL STATEMENTS (Unaudited) (CONTINUED)

On March 31, 2003, the Board of Directors declared a cash dividend of \$.038 per share from investment income-net, payable on April 28, 2003 to shareholders of record as of the close of business on April 14, 2003.

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

The fund has an unused capital loss carryover of \$1,804,915 available for federal income tax purposes to be applied against future net securities profits, if any, realized subsequent to September 30, 2002. If not applied, \$274,359 of the carryover expires in fiscal 2004, \$1,222,300 expires in fiscal 2005 and \$308,256 expires in fiscal 2009.

The tax character of distributions paid to shareholder during the fiscal year ended September 30, 2002, was as follows: tax exempt income \$2,085,275. The tax character of current year distributions will be determined at the end of the current fiscal year.

#### NOTE 2--Bank Line of Credit:

The fund participates with other Dreyfus-managed funds in a \$100 million unsecured line of credit primarily to be utilized for temporary or emergency purposes. Interest is charged to the fund based on prevailing market rates in effect at the time of borrowings. During the period ended March 31, 2003, the

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fund did not borrow under the line of credit.

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

(a) Pursuant to a management agreement ("Agreement") with the Manager, the management fee is computed at the annual rate of .70 of 1% of the value of the fund's average weekly net assets and is payable

monthly. The Agreement provides that if in any full year the aggregate expenses of the fund, exclusive of taxes, interest on borrowings, brokerage fees and extraordinary expenses, exceed the expense limitation of any state having jurisdiction over the fund, the fund may deduct from payments to be made to the Manager, or the Manager will bear the amount of such excess to the extent required by state law. During the period ended March 31, 2003, there was no expense reimbursement pursuant to the Agreement.

(b) The fund compensates Mellon under a transfer agency agreement for providing personnel and facilities to perform transfer agency services for the fund. During the period ended September 30, 2002, the fund was charged \$10,360 pursuant to the transfer agency agreement.

The fund compensates Mellon under a custody agreement for providing custodial services for the fund. During the period ended March 31, 2003, the fund was charged \$1,955 pursuant to the custody agreement.

(c) Each Board member also serves as a Board member of other funds within the Dreyfus complex (collectively, the "Fund Group"). Through December 31, 2002, each Board member who is not an "affiliated person" as defined in the Act receives an annual fee of \$45,000 and an attendance fee of \$5,000 for each in person meeting and \$500 for telephone meetings. Effective January 1, 2003, the number of funds in the Fund Group comprising the fund increased and the annual fee was increased to \$60,000 while the attendance fee was increased to \$7,500 for each in person meeting. These fees are allocated among the funds in that Fund Group. The Chairman of the Board receives an additional 25% of such compensation. Subject to the fund's Emeritus Program Guidelines, Emeritus Board members, if any, receive 50% of the fund's annual retainer fee and per meeting fee paid at the time the Board member achieves emeritus status.

The Fund

### NOTES TO FINANCIAL STATEMENTS (Unaudited) (CONTINUED)

#### NOTE 4--Securities Transactions:

The aggregate amount of purchases and sales of investment securities, excluding short-term securities, during the period ended March 31, 2003, amounted to \$1,993,060 and \$3,301,300, respectively.

At March 31, 2003, accumulated net unrealized appreciation on investments was \$1,713,202, consisting of \$2,057,822 gross unrealized appreciation and \$344,620 gross unrealized depreciation.

At March 31, 2003, the cost of investments for federal income tax purposes was substantially the same as the cost for financial reporting purposes (see the Statement of Investments).

#### NOTES

#### OFFICERS AND DIRECTORS

Dreyfus California Municipal Income, Inc.

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200 Park Avenue  
New York, NY 10166

DIRECTORS

Joseph S. DiMartino, Chairman

Clifford L. Alexander, Jr.

Lucy Wilson Benson

David W. Burke

Whitney I. Gerard

Arthur A. Hartman

George L. Perry

OFFICERS

President

Stephen E. Canter

Vice President

Mark N. Jacobs

Executive Vice Presidents

Stephen R. Byers

Paul Disdier

Secretary

Michael A. Rosenberg

Assistant Secretaries

Steven F. Newman

Robert R. Mullery

Jeff Prusnofsky

Treasurer

James Windels

Assistant Treasurers

Gregory S. Gruber

Kenneth Sandgren

Anti-Money Laundering Compliance Officer

William Germenis



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PORTFOLIO MANAGERS

Joseph P. Darcy

A. Paul Disdier

Douglas J. Gaylor

Joseph A. Irace

Colleen A. Meehan

W. Michael Petty

Scott Sprauer

James Welch

Monica S. Wieboldt

INVESTMENT ADVISER

The Dreyfus Corporation

CUSTODIAN

Mellon Bank, N.A.

COUNSEL

Stroock & Stroock & Lavan LLP

TRANSFER AGENT, DIVIDEND DISTRIBUTION AGENT AND REGISTRAR

Mellon Bank, N.A.

STOCK EXCHANGE LISTING

AMEX Symbol: DCG

INITIAL SEC EFFECTIVE DATE

10/21/88

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

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

The Fund

For More Information

Dreyfus California Municipal Income, Inc.

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Custodian

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