

DREYFUS MUNICIPAL INCOME INC
Form N-CSR
December 01, 2015

**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)

Bennett MacDougall, 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: 09/30/2015

FORM N-CSR

Item 1. Reports to Stockholders.

Dreyfus Municipal Income, Inc.

ANNUAL REPORT

September 30, 2015

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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THE FUND

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Dreyfus Municipal Income, Inc.

The Fund

A LETTER FROM THE PRESIDENT

Dear Shareholder:

We are pleased to present this annual report for Dreyfus Municipal Income, Inc., covering the 12-month period from October 1, 2014, through September 30, 2015. 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.

Financial markets proved volatile over the reporting period. For much of the year, a recovering U.S. economy enabled stocks to advance, but those gains were erased during the third quarter of 2015 when economic concerns in China, falling commodity prices, and a stronger U.S. dollar sparked sharp corrections in equity markets throughout the world. The emerging markets were especially hard hit. U.S. bonds generally fared better, rallying in late 2014 before reversing course in the spring as the domestic economy strengthened. Global economic instability sparked a renewed rally among U.S. government securities toward the reporting period's end, but corporate-backed and inflation-linked securities lost value.

We expect market volatility to persist over the near term as investors vacillate between hopes that current turmoil represents a healthy correction and fears that further disappointments could trigger a full-blown bear market. Our investment strategists and portfolio managers are monitoring developments carefully, keeping a close watch on Chinese fiscal and monetary policy, expectations of higher short-term interest rates in the United States, liquidity factors affecting various asset classes, and other developments that could influence investor sentiment. Over the longer term, we remain confident that markets are likely to stabilize as the world adjusts to slower Chinese economic growth, abundant energy resources, and the eventual normalization of U.S. monetary policy. In our view, investors will continue to be well served under these circumstances by a long-term perspective and a disciplined investment approach.

Thank you for your continued confidence and support.

Sincerely,

J. Charles Cardona
President
The Dreyfus Corporation

October 15, 2015

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DISCUSSION OF FUND PERFORMANCE

For the period of October 1, 2014, through September 30, 2015, as provided by Daniel Barton and Jeffrey Burger, Portfolio Managers

Fund and Market Performance Overview

For the 12-month period ended September 30, 2015, Dreyfus Municipal Income, Inc. achieved a total return of 5.37% on a net-asset-value basis.¹ Over the same period, the fund provided aggregate income dividends of \$0.630 per share, which reflects a distribution rate of 6.67%.²

Municipal bonds generally produced modestly positive returns, as declines triggered by rising long-term interest rates during the spring of 2015 were more than offset by rallies early and late in the reporting period. The fund benefited in this environment from our focus on longer term, higher yielding 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 and invests in municipal obligations which, at the time of purchase, are rated investment grade or the unrated equivalent as determined by The Dreyfus Corporation 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.

Fluctuating Interest Rates Sparked Market Volatility

Over the final months of 2014, global investors seeking more competitive yields than were available in overseas markets flocked to higher yielding investments in the United States, and the resulting supply-and-demand imbalance put downward pressure on U.S. bond yields. This trend began to reverse in early 2015, when longer term interest rates drifted higher amid stronger-than-expected employment data, but an economic soft patch during the winter soon caused yields to moderate. Longer term interest rates resumed their climb when economic growth reaccelerated in the spring, but renewed concerns about sluggish economic growth and depreciating currency values in China pushed bond yields lower and prices higher over the summer.

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DISCUSSION OF FUND PERFORMANCE *(continued)*

Municipal bonds also encountered volatility related to changing supply-and-demand dynamics. After experiencing robust demand for a limited supply of newly issued bonds during 2014, issuance volumes climbed during 2015 as issuers rushed to refinance existing debt before expected increases in interest rates.

Isolated pockets of weak credit conditions in Illinois, New Jersey, and Puerto Rico had relatively little impact on the national market. Many states and local municipalities have seen tax revenues climb beyond pre-recession levels, enabling them to balance their budgets and replenish reserves.

Longer Term Revenue Bonds Buoyed Relative Results

Our sector allocation strategy proved effective over the reporting period, as overweighted exposure to higher yielding, longer term revenue bonds enabled the fund to participate more fully in their strength compared to general obligation and escrowed bonds. The fund achieved particularly favorable results through bonds backed by hospitals, airports, and the states' settlement of litigation with U.S. tobacco companies. The fund avoided some of the weaker segments of the municipal bond market, most notably Puerto Rico bonds that were hurt by the U.S. territory's deteriorating fiscal condition.

Relative performance also was aided by our interest rate strategies. A relatively long average duration helped the fund benefit during times of falling long-term interest rates. The fund's leveraging strategy, which employed tender option bonds, helped magnify the benefits of these strategies.

On the other hand, the fund's relative results were constrained to a degree by Illinois and Chicago bonds that were undermined by recent credit quality concerns.

A Constructive Investment Posture

We expect market volatility to persist over the near term in anticipation of higher short-term interest rates, but we remain optimistic about the market's longer term prospects in a growing U.S. economy. Therefore, we have maintained the fund's focus on longer term, income-oriented municipal bonds. We also have attempted to take advantage of bouts of market volatility to purchase certain credits at attractive prices, including securities in New Jersey, Illinois, and Chicago that we believe were punished more severely than warranted by their underlying credit fundamentals.

October 15, 2015

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

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SELECTED INFORMATION

September 30, 2015 (Unaudited)

Market Price per share September 30, 2015	\$9.45
Shares Outstanding September 30, 2015	20,723,399
NYSE AMEX Ticker Symbol	DMF

MARKET PRICE (NYSE AMEX)

	Fiscal Year Ended September 30, 2015			
Quarter Ended	Quarter Ended	Quarter Ended	Quarter Ended	Quarter Ended

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	December 31, 2014	March 31, 2015	June 30, 2015	September 30, 2015
High	\$9.62	\$10.04	\$9.74	\$9.45
Low	9.08	9.25	8.87	8.87
Close	9.62	9.65	8.92	9.45

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

October 24, 1988 (commencement of operations)	469.14%
through September 30, 2015	
October 1, 2005 through September 30, 2015	89.44
October 1, 2010 through September 30, 2015	32.58
October 1, 2014 through September 30, 2015	11.15
January 1, 2015 through September 30, 2015	3.30
April 1, 2015 through September 30, 2015	1.33
July 1, 2015 through September 30, 2015	7.79

NET ASSET VALUE PER SHARE

October 24, 1988 (commencement of operations)	\$9.26
September 30, 2014	9.68
December 31, 2014	9.73
March 31, 2015	9.74
June 30, 2015	9.47
September 30, 2015	9.54

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

October 24, 1988 (commencement of operations)	520.49%
through September 30, 2015	
October 1, 2005 through September 30, 2015	84.72
October 1, 2010 through September 30, 2015	37.72
October 1, 2014 through September 30, 2015	5.37
January 1, 2015 through September 30, 2015	3.10
April 1, 2015 through September 30, 2015	1.34
July 1, 2015 through September 30, 2015	2.49

*With dividends reinvested.

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STATEMENT OF INVESTMENTS

September 30, 2015

Long-Term Municipal Investments - 149.2%	Coupon Rate (%)	Maturity Date	Principal Amount (\$)	Value (\$)
Alabama - 1.4%				
Jefferson County, Sewer Revenue Warrants	0/7.75	10/1/46	4,000,000	^a 2,724,280
Arizona - 8.5%				
Barclays Capital Municipal Trust Receipts (Series 21 W),	5.00	1/1/38	9,998,763	^{b,c} 10,752,363

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(Salt River Project Agricultural Improvement and Power District, Salt River Project Electric System Revenue) Recourse				
Pima County Industrial Development Authority,				
Education Revenue (American Charter Schools Foundation Project)	5.63	7/1/38	1,000,000	938,370
Pinal County Electrical District Number 4,				
Electric System Revenue (Prerefunded)	6.00	12/1/18	2,300,000	d 2,663,446
Salt Verde Financial Corporation,				
Senior Gas Revenue	5.00	12/1/37	2,190,000	2,444,390
				16,798,569
California - 23.4%				
California,				
GO (Various Purpose)	5.75	4/1/31	3,950,000	4,575,009
California,				
GO (Various Purpose)	6.00	3/1/33	1,250,000	1,508,088
California,				
GO (Various Purpose)	6.50	4/1/33	3,000,000	3,563,130
California,				
GO (Various Purpose)	6.00	11/1/35	2,500,000	2,992,550
Chula Vista,				
IDR (San Diego Gas and Electric Company)	5.88	2/15/34	2,000,000	2,291,800
JPMorgan Chase Putters/Drivers Trust (Series 3869),				
(Los Angeles Department of Airports, Senior Revenue (Los Angeles International Airport)) Non-recourse	5.25	5/15/18	10,000,000	b,c 11,645,400
JPMorgan Chase Putters/Drivers Trust (Series 4414),				
(Los Angeles Department of Airports, Senior Revenue (Los Angeles International Airport)) Non-recourse	5.00	5/15/21	4,000,000	b,c 4,443,560
JPMorgan Chase Putters/Drivers Trust (Series 4421),				
(The Regents of the University of California, General Revenue) Non-recourse	5.00	5/15/21	3,750,000	b,c 4,282,388
Sacramento County,				
Airport System Subordinate and Passenger Facility Charges Grant Revenue	6.00	7/1/35		