

DREYFUS MUNICIPAL INCOME INC
Form N-CSR
November 26, 2014

**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)

John Pak, 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: 09/30/2014

FORM N-CSR

Item 1. Reports to Stockholders.

Dreyfus

Municipal Income, Inc.

ANNUAL REPORT September 30, 2014

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 PRESIDENT

Dear Shareholder:

This annual report for Dreyfus Municipal Income, Inc. covers the 12-month period from October 1, 2013, through September 30, 2014. 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.

Municipal bonds generally gained ground for the reporting period overall despite bouts of heightened volatility during the final months of 2013, when a more moderately accommodative monetary policy and accelerating economic growth caused long-term interest rates to rise. Long-term interest rates moderated early in 2014 due to geopolitical and economic concerns, driving prices of long-term securities higher, and favorable supply-and-demand dynamics helped keep yields low when economic growth resumed. Meanwhile, improving economic fundamentals enabled many states and municipalities to shore up their fiscal conditions.

While we remain cautiously optimistic regarding the municipal bond market's prospects, we believe that selectivity is likely to become more important to investment success. Long-term rates could rise if, as we anticipate, the economy continues to accelerate and inflationary pressures rise. On the other hand, intensifying geopolitical turmoil and other factors could dampen the adverse effects of a stronger domestic economic recovery, and rising investor demand for tax-advantaged investments may continue to support municipal bond prices. As always, we encourage you to discuss our observations with your financial adviser to assess their potential impact on your investments.

Thank you for your continued confidence and support.

J. Charles Cardona
President
The Dreyfus Corporation
October 15, 2014

DISCUSSION OF FUND PERFORMANCE

For the period of October 1, 2013, through September 30, 2014, as provided by Daniel Barton, Portfolio Manager

Fund and Market Performance Overview

For the 12-month period ended September 30, 2014, Dreyfus Municipal Income, Inc. achieved a total return of 15.37% 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 6.93%.²

Municipal bonds rallied over the reporting period as long-term interest rates moderated, supply-and-demand dynamics proved favorable, and credit conditions improved. The fund particularly benefited from a relatively long average duration and overweighted exposure to revenue bonds.

The Fund's Investment Approach

The fund seeks to maximize current income exempt from federal income tax to the extent consistent with the preservation of capital from a portfolio that, under normal market conditions, invests at least 80% of the value of its net assets in municipal obligations. Under normal market conditions, the fund invests in municipal obligations which, at the time of purchase, are rated investment grade or the unrated equivalent as determined by 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.

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DISCUSSION OF FUND PERFORMANCE *(continued)*

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.

Economic and Technical Forces Buoyed Municipal Bonds

Municipal bonds struggled over the fall of 2013 amid accelerating economic growth and the Federal Reserve Board's plans to back away from its quantitative easing program. By the end of the year, long-term interest rates had climbed above 3% for the first time in more than two years, and municipal bond prices fell as anxious investors withdrew from the market. However, rates subsequently moderated, and bond prices rebounded when harsh winter weather contributed to an economic contraction during the first quarter of 2014.

The economic recovery got back on track in the spring, but favorable supply-and-demand dynamics kept long-term interest rates low. Less refinancing activity produced a reduced supply of newly issued tax-exempt securities over the first nine months of 2014, while demand intensified from investors seeking higher after-tax income. Consequently, municipal bonds produced highly competitive total returns, with longer term and lower rated securities faring particularly well.

The economic rebound resulted in better underlying credit conditions for many issuers. Tax revenues increased, helping most states achieve budget surpluses. Isolated fiscal problems in Detroit and Puerto Rico were notable exceptions to the recovering credit environment.

Interest Rate Strategies Bolstered Relative Performance

The fund benefited during the reporting period from a long average duration and a focus on longer maturities, which enabled it to participate more fully in the positive effects of falling interest rates and narrowing yield differences along the market's maturity spectrum. In addition, overweighted exposure to revenue-backed bonds and a commensurately underweighted position in general obligation bonds aided results. The fund received especially strong contributions from BBB-rated bonds backed by revenues from hospitals, airlines, industrial development projects, and the states' settlement of litigation with U.S. tobacco companies. The fund's leveraging strategy magnified the positive impact of these strategies.

Although detractors from performance proved relatively mild over the reporting period, the fund held modest positions in Puerto Rico municipal bonds, which suffered credit-quality issues related to the U.S. territory's struggling economy and heavy pension liabilities. We took advantage of periodic rallies to eliminate the fund's Puerto Rico holdings at relatively favorable prices.

Maintaining a Constructive Investment Posture

Although the U.S. economic recovery has gained momentum, global growth recently has disappointed, driving interest rates lower as investors flock to traditional safe havens such as U.S. Treasury securities. In addition, technical factors in the municipal bond market have remained favorable, and we expect the supply of newly issued securities to remain muted while investor demand stays strong.

Therefore, we have maintained the fund's focus on generating competitive levels of current income, including an emphasis on longer dated securities. Nonetheless, we are prepared to adjust the fund's strategies as economic and market conditions change over the months ahead.

October 15, 2014

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, 2014 (Unaudited)

Market Price per share September 30, 2014	\$	9.09
Shares Outstanding September 30, 2014		20,714,750
NYSE AMEX Ticker Symbol		DMF

MARKET PRICE (NYSE AMEX)

	Fiscal Year Ended September 30, 2014			
	Quarter	Quarter	Quarter	Quarter
	Ended	Ended	Ended	Ended
	December 31, 2013	March 31, 2014	June 30, 2014	September 30, 2014
High	\$8.65	\$ 9.12	\$ 9.36	\$ 9.40
Low	8.03	8.47	8.96	8.99
Close	8.46	9.02	9.32	9.09

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

October 24, 1988 (commencement of operations)	
through September 30, 2014	412.05 %
October 1, 2004 through September 30, 2014	66.04
October 1, 2009 through September 30, 2014	46.38
October 1, 2013 through September 30, 2014	12.46
January 1, 2014 through September 30, 2014	13.14
April 1, 2014 through September 30, 2014	4.27
July 1, 2014 through September 30, 2014	(0.77)

NET ASSET VALUE PER SHARE

October 24, 1988 (commencement of operations)	\$	9.26
September 30, 2013		9.00
December 31, 2013		8.84
March 31, 2014		9.34
June 30, 2014		9.58
September 30, 2014		9.68

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

October 24, 1988 (commencement of operations)	
through September 30, 2014	488.87 %
October 1, 2004 through September 30, 2014	90.58
October 1, 2009 through September 30, 2014	43.41

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October 1, 2013 through September 30, 2014	15.37
January 1, 2014 through September 30, 2014	15.30
April 1, 2014 through September 30, 2014	7.24
July 1, 2014 through September 30, 2014	2.80

* *With dividends reinvested.*

STATEMENT OF INVESTMENTS

September 30, 2014

Long-Term Municipal Investments—147.4%	Coupon Rate (%)	Maturity Date	Principal Amount (\$)	Value (\$)
Alabama—2.1%				
Alabama Public School and College Authority, Capital Improvement Revenue	5.00	1/1/26	3,500,000	4,275,040
Arizona—9.4%				
Barclays Capital Municipal Trust Receipts (Series 21 W) Recourse (Salt River Project Agricultural Improvement and Power District, Salt River Project Electric System Revenue) Pima County Industrial Development Authority, Education Revenue (American Charter Schools Foundation Project)	5.00	1/1/38	9,998,763 ^{a,b}	10,956,713
Pima County Industrial Development Authority, IDR (Tucson Electric Power Company Project) Pinal County Electrical District Number 4, Electric System Revenue Salt Verde Financial Corporation, Senior Gas Revenue	5.63	7/1/38	2,000,000 ^c	1,774,060
	5.75	9/1/29	1,000,000	1,009,040
	6.00	12/1/38	2,300,000	2,557,071
	5.00	12/1/37	2,190,000	2,497,126
California—23.7%				
California, GO (Various Purpose)	5.75	4/1/31	3,950,000	4,726,847
California, GO (Various Purpose)	6.00	3/1/33	1,250,000	1,508,788
California, GO (Various Purpose)	6.50	4/1/33	3,000,000	3,669,090
California, GO (Various Purpose)	6.00	11/1/35	2,500,000	3,026,375

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California Municipal Finance Authority, Revenue (Southwestern Law School)	6.50	11/1/41	750,000 ^c	928,035
Chula Vista, IDR (San Diego Gas and Electric Company)	5.88	2/15/34	2,000,000	2,356,600

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STATEMENT OF INVESTMENTS (continued)

Long-Term Municipal Investments (continued)	Coupon Rate (%)	Maturity Date	Principal Amount (\$)	Value (\$)
California (continued)				
JPMorgan Chase Putters/Drivers Trust (Series 3869) Non-recourse (Los Angeles Department of Airports, Senior Revenue (Los Angeles International Airport))	5.25	5/15/18	10,000,000 a,b	11,719,800
JPMorgan Chase Putters/Drivers Trust (Series 4414) Non-recourse (Los Angeles Department of Airports, Senior Revenue (Los Angeles International Airport))	5.00	5/15/21	4,000,000 a,b	4,444,800
JPMorgan Chase Putters/Drivers Trust (Series 4421) Non-recourse (The Regents of the University of California, General Revenue) Sacramento County, Airport System Subordinate and Passenger Facility Charges Grant Revenue	5.00	5/15/21	3,750,000 a,b,c	4,277,887
Santa Ana Community Redevelopment Agency, Tax Allocation Revenue (Merged Project Area)	6.00	7/1/35	2,250,000	2,593,597
Tobacco Securitization Authority of Southern California, Tobacco Settlement Asset-Backed Bonds (San Diego County Tobacco Asset Securitization Corporation)	6.75	9/1/28	3,000,000	3,694,710
Tuolumne Wind Project Authority, Revenue (Tuolumne Company Project)	5.00	6/1/37	3,500,000	2,860,025
	5.88	1/1/29	1,500,000	1,785,390
Colorado—6.5%				
Colorado Educational and Cultural				

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Facilities Authority, Charter School Revenue (American Academy Project)	8.00	12/1/40	1,500,000 ^C	1,743,225
E-470 Public Highway Authority, Senior Revenue	5.25	9/1/25	1,000,000	1,107,450
E-470 Public Highway Authority, Senior Revenue	5.38	9/1/26	1,000,000	1,111,860

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Long-Term Municipal Investments (continued)	Coupon Rate (%)	Maturity Date	Principal Amount (\$)	Value (\$)
Colorado (continued)				
JPMorgan Chase Putters/Drivers Trust (Series 4386) Non-recourse (Board of Governors of the Colorado State University, System Enterprise Revenue)	5.00	3/1/20	2,550,000 ^{a,b,c}	2,850,059
RIB Floater Trust (Barclays Bank PLC) (Series 25 U-1) Recourse (Colorado Springs, Utilities System Improvement Revenue)	5.00	11/15/43	4,000,000 ^{a,b}	4,526,840
University of Colorado Regents, University Enterprise Revenue	5.38	6/1/38	1,500,000 ^c	1,738,440
District of Columbia—4.0%				
RIB Floater Trust (Barclays Bank PLC) (Series 15 U) Recourse (District of Columbia, Income				