

DREYFUS MUNICIPAL INCOME INC
Form N-CSR
November 30, 2017

**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 A. 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) 922-6400

Date of fiscal year end: 09/30

Date of reporting period: 09/30/17

FORM N-CSR

Item 1. Reports to Stockholders.

Dreyfus Municipal Income, Inc.

**ANNUAL REPORT
September 30, 2017**

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(s) 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 CEO OF DREYFUS

Dear Shareholder:

We are pleased to present this annual report for Dreyfus Municipal Income, Inc., covering the 12-month period from October 1, 2016 through September 30, 2017. 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.

Stocks set a series of new record highs and bonds produced mixed results over the past year in response to changing economic and political conditions. Financial markets during the final months of 2016 were dominated by the election of a new U.S. presidential administration. Equities and corporate-backed bonds surged higher in anticipation of more business-friendly regulatory, tax, and fiscal policies, but high-quality bonds generally lost value due to expectations of rising interest rates and accelerating inflation in a stronger economy. Despite a series of short-term interest rate hikes, bonds recovered most or all of their previous losses over the first nine months of 2017 when it became clearer that pro-growth legislation would take time and political capital to enact. U.S. and international stocks continued to rally as corporate earnings grew and global economic conditions improved.

The markets' recent strong performance has been supported by solid underlying fundamentals. While we currently expect these favorable conditions to persist, we remain watchful for economic and political developments that could derail the rallies. As always, we encourage you to discuss the risks and opportunities of today's investment environment with your financial advisor.

Thank you for your continued confidence and support.

Sincerely,

Mark D. Santero
Chief Executive Officer
The Dreyfus Corporation
October 16, 2017

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DISCUSSION OF FUND PERFORMANCE

For the period from October 1, 2016 through September 30, 2017, as provided by Daniel Rabasco and Jeffrey Burger, Primary Portfolio Managers

Market and Fund Performance Overview

For the 12-month period ended September 30, 2017, Dreyfus Municipal Income, Inc. produced a total return of 0.35% on a net-asset-value basis and 0.44% on a market price basis.¹ Over the same period, the fund provided aggregate income dividends of \$0.492 per share, which reflects a distribution rate of 5.39%.²

Municipal bonds produced modestly positive returns over the reporting period when moderating long-term interest rates and improving supply-and-demand dynamics offset earlier market weakness in the wake of the 2016 presidential election. In this environment, the fund benefited from its focus on longer-term, income-oriented 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 ("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.

Supply-and-Demand Dynamics Buoyed Municipal Bonds

The reporting period began in the midst of heightened market volatility stemming from a flood of new securities as issuers sought to lock in low financing rates in advance of short-term interest-rate hikes from the Federal Reserve Board. In addition, the unexpected election in November of a new presidential administration sparked uncertainty regarding potential changes in tax policy.

These negative trends reversed in early 2017, and municipal bonds rebounded steadily from low valuations as the supply of newly issued securities moderated, demand increased, and investors realized that tax reform legislation was not imminent. However, a tax reform proposal in September rekindled investors' concerns, and municipal bonds gave back a portion of their previous gains.

Although growth in tax revenues has slowed and several states are facing pressure from underfunded pension systems, credit conditions have remained stable for most municipal issuers. Solid credit fundamentals helped lower-rated municipal bonds outperform their higher-quality counterparts over the reporting period.

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DISCUSSION OF FUND PERFORMANCE *(continued)*

Higher-Yielding Securities Supported Fund Results

The fund produced a mildly positive total return on a net-asset-value basis and a competitive dividend distribution rate during the reporting period, in part due to its focus on higher-yielding tax-exempt securities. In addition, a relatively long average duration helped the fund benefit from declining interest rates over the first eight months of 2017. An emphasis on bonds with A and BBB credit ratings, which are at the lower end of the investment-grade spectrum, also supported the fund's returns. Successful security selections during the reporting period included general obligation bonds issued on behalf of Chicago, Illinois, which rebounded sharply from earlier weakness. Among revenue-backed bonds, securities issued on behalf of education facilities, hospitals, special-tax districts, and water-and-sewer infrastructure fared well.

On the other hand, the fund's emphasis on bonds backed by the states' settlement with U.S. tobacco companies detracted modestly from returns. The fund's leveraging strategy also proved relatively ineffective when short-term interest rates climbed.

A More Cautious Investment Posture

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In the wake of the municipal bond market's recent rally, yield differences have narrowed along the market's credit-quality spectrum, and tax reform has become a more prominent part of the national debate. In addition, short- and long-term interest rates are expected to rise in a growing economy. The municipal bond market may also face seasonal supply-and-demand pressures over the next few months.

The fund's average duration declined during the reporting period to a more moderately long position. We continue to maintain the fund's emphasis on income-oriented securities, including revenue-backed bonds, and we remain watchful for trading opportunities to boost the fund's income potential as interest rates rise.

October 16, 2017

¹ Total return includes reinvestment of dividends and any capital gains paid, based upon net asset value per share or market price per share, as applicable. 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.

Bonds 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.

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SELECTED INFORMATION

September 30, 2017 (Unaudited)

Market Price per share September 30, 2017 \$9.13
 Shares Outstanding September 30, 2017 20,746,281
 NYSE MKT Ticker Symbol DMF

MARKET PRICE (NYSE MKT)

		Fiscal Year Ended September 30, 2017			
		Quarter Ended	Quarter Ended	Quarter Ended	Quarter Ended
		December 31, 2016	March 31, 2017	June 30, 2017	September 30, 2017
High	\$9.59	\$9.12	\$9.11	\$10.00	
Low	8.42	8.60	8.86	8.95	
Close	8.63	8.92	9.01	9.13	

PERCENTAGE GAIN (LOSS) based on change in Market Price[†]

October 24, 1988 (commencement of operations) 513.90%

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through September 30, 2017	
October 1, 2007 through September 30, 2017	97.44
October 1, 2012 through September 30, 2017	11.91
October 1, 2016 through September 30, 2017	0.44
January 1, 2017 through September 30, 2017	10.18
April 1, 2017 through September 30, 2017	5.15
July 1, 2017 through September 30, 2017	2.69

NET ASSET VALUE PER SHARE

October 24, 1988 (commencement of operations)	\$9.26
September 30, 2016	9.84
December 31, 2016	9.21
March 31, 2017	9.26
June 30, 2017	9.34
September 30, 2017	9.35

PERCENTAGE GAIN (LOSS) based on change in Net Asset Value[†]

October 24, 1988 (commencement of operations)	578.95%
through September 30, 2017	
October 1, 2007 through September 30, 2017	87.69
October 1, 2012 through September 30, 2017	22.40
October 1, 2016 through September 30, 2017	0.35
January 1, 2017 through September 30, 2017	5.73
April 1, 2017 through September 30, 2017	3.73
July 1, 2017 through September 30, 2017	1.45

†Total return includes reinvestment of dividends and any capital gains paid.

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STATEMENT OF INVESTMENTS

September 30, 2017

Description	Coupon Rate (%)	Maturity Date	Principal Amount (\$)	Value (\$)
Long-Term Municipal Investments - 150.0%				
Alabama - 3.3%				
Jefferson County, Sewer Revenue Warrants	0/7.75	10/1/46	4,000,000	a 3,315,000
Lower Alabama Gas District, Gas Project Revenue	5.00	9/1/46	2,500,000	3,034,125
				6,349,125
Arizona - 8.1%				
La Paz County Industrial Development Authority, Education Facility LR (Charter Schools Solutions-Harmony Public Schools Project)	5.00	2/15/46	1,500,000	b 1,606,920
	6.00	12/1/18	1,300,000	c 1,376,401

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Pinal County Electrical District Number 4, Electric System Revenue (Prerefunded) Salt Verde Financial Corporation, Senior Gas Revenue	5.00	12/1/37	2,190,000	2,626,905
Tender Option Bond Trust Receipts (Series 2016-XM0447), 1/1/2038, (Salt River Project Agricultural Improvement and Power District, Salt River Project Electric System Revenue) Recourse	5.00	1/1/38	9,998,763	b,d 10,103,713
				15,713,939
California - 21.9%				
California, GO (Various Purpose)	5.75	4/1/31	3,950,000	4,234,479
California, GO (Various Purpose)	6.00	3/1/33	1,250,000	1,398,338
California, GO (Various Purpose)	6.50	4/1/33	3,000,000	3,244,890
California, GO (Various Purpose)	6.00	11/1/35	2,500,000	2,752,325
Sacramento County, Airport System Subordinate and Passenger Facility Charges Grant Revenue	6.00	7/1/35	2,250,000	2,331,720
Santa Ana Community Redevelopment Agency, Tax Allocation Revenue (Merged Project Area)	6.75	9/1/28	3,000,000	3,530,790
Tender Option Bond Trust Receipts (Series 2016-XM0371), 5/15/2029, (Los Angeles Department of Airports, Senior Revenue (Los Angeles International Airport)) Non-recourse	5.25	5/15/18	10,000,000	b,d 11,047,200

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Description	Coupon Rate (%)	Maturity Date	Principal Amount (\$)	Value (\$)
Long-Term Municipal Investments - 150.0% (continued)				
California - 21.9% (continued)				
Tender Option Bond Trust Receipts (Series 2016-XM0387), 5/15/2038, (Los Angeles Department of Airports, Senior Revenue (Los Angeles International Airport)) Non-recourse	5.00	5/15/21	4,000,000	b,d 4,519,600
Tender Option Bond Trust Receipts (Series 2016-XM0390), 5/15/2036, (The Regents of the University of California, General Revenue) Non-recourse	5.00	5/15/21	3,750,000	b,d 4,343,737
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	3,498,950
Tuolumne Wind Project Authority, Revenue (Tuolumne Company Project) (Prerefunded)	5.88	1/1/19	1,500,000	c 1,593,525
				42,495,554
Colorado - 7.5%				
Colorado Educational and Cultural Facilities Authority, Charter School Revenue (American Academy Project) (Prerefunded)	8.00	12/1/18	1,500,000	c 1,650,825

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Colorado High Performance Transportation Enterprise, C-470 Express Lanes Senior Revenue	5.00	12/31/51	1,500,000	1,645,950
E-470 Public Highway Authority, Senior Revenue	5.25	9/1/25	1,000,000	1,083,480
E-470 Public Highway Authority, Senior Revenue	5.38	9/1/26	1,000,000	1,083,010
Tender Option Bond Trust Receipts (Series 2016-XM0385), 3/1/2038, (Board of Governors of the Colorado State University, System Enterprise Revenue) Non-recourse	5.00	3/1/20	2,550,000	2,948,488