

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	Quarter	Quarter	Quarter
	Ended	Ended	Ended	Ended
	December 31, 2011	March 31, 2012	June 30, 2012	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			