

**U.S. MUNICIPAL & INCOME
FUND, INC.**

**2015
ANNUAL REPORT**

Dear Shareholder:

The U.S. Municipal & Income Fund, Inc. (the "Fund") is pleased to present its Annual Report to Shareholders for the fiscal year ended December 31, 2015.

INVESTMENT OBJECTIVE

The Fund's investment objective is to provide investors in its Common Stock with current income, as is consistent with the preservation of capital. To achieve its investment objective, the Fund must invest at least 20% of its total assets in taxable securities issued by Puerto Rico issuers and up to 80% of its total assets will be invested primarily in United States municipal securities.

THE BENEFITS AND RISKS OF LEVERAGE

The Fund is permitted to use leverage in an amount not to exceed 50% of the Fund's total assets. In addition, the Fund may also borrow for temporary or emergency purposes in an amount of up to an additional 5% of its total assets. The Fund obtains leverage by borrowing, using its investment portfolio as well as securities otherwise obtained as collateral.

Leverage can produce additional income when the income derived from investments financed with borrowed funds exceeds the cost of such borrowed funds. In such an event, the Fund's net income will be greater than it would be without leverage. On the other hand, if the income derived from securities purchased with borrowed funds is not sufficient to cover the cost of such funds, the Fund's net income will be less than it would be without leverage.

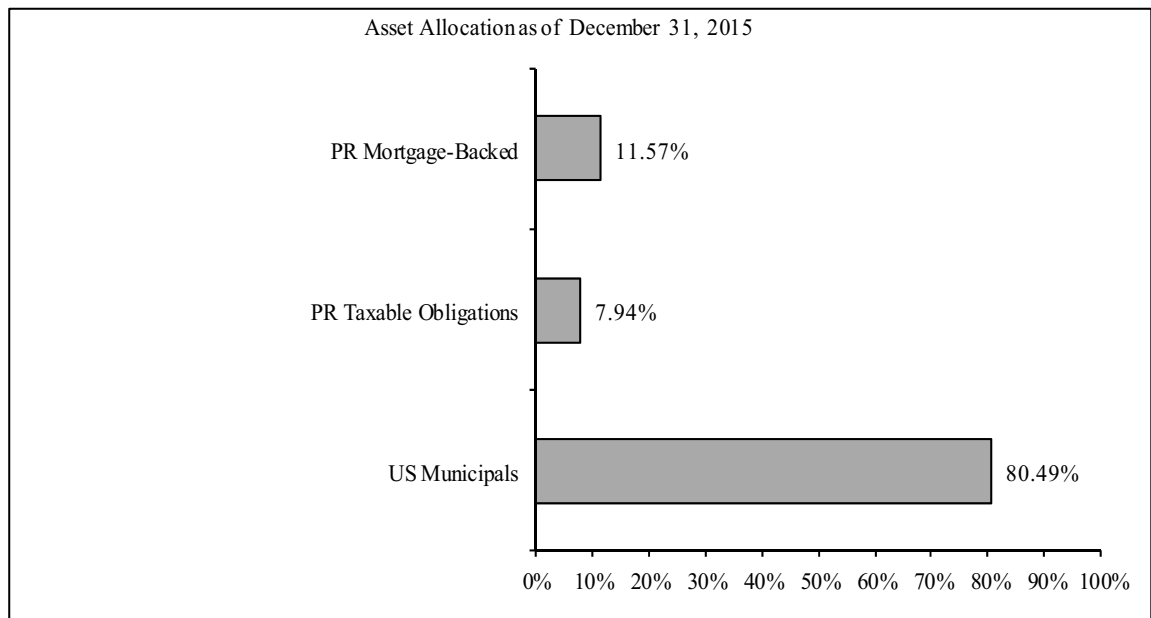
FUND PERFORMANCE

During the fiscal year ended December 31, 2015, the Fund experienced a total return of 0.10% based on the net asset value ("NAV") per-share at such date. This figure compares to a NAV return of 26.37% for the fiscal year ended December 31, 2014.

At December 31, 2015 the Fund's NAV was \$9.67. The average dividend yield during the fiscal year ended December 31, 2015, computed over the original investment of \$10 per share, was 4.87%. This figure compares to a dividend yield of 4.56% for the year ended December 31, 2014. The basis for the dividend distributions is the net investment income for tax purposes. Note 11 of the Fund's financial statements sets forth the reconciliation between the book net investment income and the tax investment income used for dividend payments.

The Fund's investment portfolio is comprised of various security classes. UBS Asset Managers of Puerto Rico, a division of UBS Trust Company of Puerto Rico, as the Investment Adviser, considers numerous characteristics of each asset class, in an effort to meet the Fund's investment objective. Some of the securities in which the Fund has invested have call dates that vary from seven (7) to ten (10) years (at the time of purchase). The majority of the securities owned by the Fund are long dated U.S. municipal securities. The call dates and final maturities of the portfolio are included in the Schedule of Investments which forms part of the accompanying financial statements.

Figure 1 below reflects the breakdown of the investment portfolio as of December 31, 2015. For details of the below security categories, please refer to the enclosed Schedule of Investments.



ECONOMIC OVERVIEW

The U.S. economy grew 0.7% for the quarter ended December 31, 2015 compared to an increase of 2.0% in the previous quarter. Labor conditions continue to improve with the unemployment rate at 5.0% as of the fourth quarter-end. Inflation has been running below the 2% per year target of the U.S. Federal Reserve (the "Fed") and longer-term inflation expectations have remained stable.

During December 2015, the Fed raised the federal fund rate from a range of 0% to ¼% to a range of ¼% to ½%. In addition, they will implement additional rate hikes depending on future economic conditions. The Fed will assess progress toward its objectives of maximum employment and 2% inflation. This assessment will take into consideration a wide range of information, including measures of labor market conditions, indications of inflation pressures and inflation expectations, and readings on financial and international developments.

The yield on the ten-year U.S. Treasury Note closed at 2.27% on December 31, 2015 up from 2.17% in December 2014. The stock markets have reacted positively to a scenario of moderate growth, low interest rates and low inflation. Major indices have traded near or at all-time highs. However, geopolitical risks in Greece, Ukraine and the Middle East have market participants on edge. The decrease in the price of oil has increased market volatility.

The Puerto Rico economy is closely linked to that of the United States. Many of the important variables that affect economic growth in Puerto Rico, such as imports, exports, direct investment, interest rates, transfer payments, inflation, and tourism expenditures, are directly related to developments in the United States. The uncertainty created by the instability of the Puerto Rico government's finances, including a recurring budget deficit, has caused a prolonged contraction of economic activity.

Fitch Ratings ("Fitch"), Moody's Investors Service ("Moody's"), and Standard & Poor's Rating Services ("S&P") have recently downgraded further the general obligation bonds ("GOs") of the Commonwealth of Puerto Rico, as well as the obligations of certain Commonwealth agencies and public corporations, including Puerto Rico Sales Tax Financing Corporation ("COFINA"), on numerous occasions. On June 29, 2015, Fitch further downgraded the GOs and related debt ratings from "B" to "CC." Moody's followed suit on July 1, 2015, downgrading the GOs and COFINA's senior bonds to "Caa3." S&P further downgraded all of the Commonwealth of Puerto Rico's tax-backed debt to "CC" on September 10, 2015. All such ratings carry a negative outlook. Currently, none of the bonds issued by the Commonwealth and its instrumentalities without credit enhancement carry an investment-grade credit rating.

The Government of Puerto Rico reported revenues of \$844.8 million on December 2015, resulting in a \$9.2 million decrease compared to December 2014 and a \$2.5 million increase compared to estimates included in the budget for Fiscal Year 2015-2016. Regarding sales tax, actual collections increased by \$215.4 million, which is a \$93.9 million increase year-over-year. However, this increase is the result of the increase in the Sales and Use Tax to 10.5% from 6%. The Puerto Rico economic environment continues to remain uncertain.

On August 3, 2015, the Puerto Rico Public Finance Corporation ("PRPFC") failed to make the required \$58 million payment on its debt. This represents the first default on Puerto Rico's debt. On December 30, 2015, the Governor of Puerto

Rico announced that the Commonwealth would make all bond payments due on January 4, 2016 except for \$37.3 million in interest corresponding to \$35.9 million of the Puerto Rico Infrastructure Financing Authority bonds and \$1.4 million of PRPFC bonds. The Fund does not own any securities issued by the Commonwealth of Puerto Rico, its agencies or municipalities.

OUTLOOK

At its March 2016 meeting the Fed maintained the discount rates at its current levels and will monitor rates hikes depending on future economic conditions.

Under the current investment strategy and the current volatile market conditions in U.S. and Puerto Rico, the Investment Adviser reconfirms its commitment to providing professional asset management services to the Fund.

UBS Asset Managers of Puerto Rico,
a division of UBS Trust Company of
Puerto Rico, as Investment Adviser

U.S. Municipal & Income Fund, Inc.

The following table includes selected data for a share outstanding throughout each period and other performance information derived from the financial statements. It should be read in conjunction with the financial statements and notes thereto.

FINANCIAL HIGHLIGHTS

		For the fiscal year ended December 31, 2015	For the fiscal year ended December 31, 2014	For the period from January 18, 2013* to December 31, 2013
Increase (Decrease) in Net Asset Value:				
Per Share Operating Performance: (a)	Net asset value, beginning of period	\$ 10.15	\$ 8.43	\$ 10.00
	Net investment income	0.55	0.60	0.48
	Net realized (loss) gain and unrealized (depreciation) appreciation from investments	(0.54)	1.58	(1.68)
	Total from investment operations	0.01	2.18	(1.20)
	Less: Dividends from net investment income to common shareholders	(0.49)	(0.46)	(0.37)
	Net asset value, end of period	\$ 9.67	\$ 10.15	\$ 8.43
Total Investment Return: (b)				
Based on net asset value per share ^		0.10%	26.37%	(12.20)%
Ratios:				
	(c) (d) (e) Expenses to average net assets - net of waived fees	2.20%	2.26%	1.98%
	(c) (e) Operating expenses to average net assets applicable to common shareholders - net of waived fees	1.67%	1.66%	1.63%
	(c) Interest and leverage related expenses to average net assets applicable to common shareholders	0.53%	0.60%	0.35%
	(c) (e) Net investment income to average net assets - net of waived fees and reimbursed expenses	5.72%	6.31%	5.46%
Supplemental Data:				
Net assets, end of period (in thousands)		\$ 97,260	\$ 90,233	\$ 88,650
Portfolio turnover		10.27%	3.94%	75.11%
Portfolio turnover excluding the proceeds from calls of portfolio securities and the proceeds from mortgage-backed securities paydowns		7.46%	3.94%	74.48%

* Date of issuance of shares.

^ Total investment return excludes the effects of sales load and is not annualized for the period ended December 31, 2013.

(a) Based on average outstanding shares of 9,571,393; 9,968,245 and 9,998,007 for the fiscal year ended December 31, 2015; December 31, 2014, and for the period from January 18, 2013 to December 31, 2013, respectively.

(b) Dividends are assumed to be reinvested at the per share net asset value on the ex-dividend rate.

(c) Based on average net assets of \$93,626,057; \$94,764,032 and \$91,194,499 for the fiscal year ended December 31, 2015; December 31, 2014, and for the period from January 18, 2013 to December 31, 2013, respectively. Ratios for the period ended December 31, 2013 were annualized using a 365 day base.

(d) Expenses include both operating and leverage related expenses.

(e) The effect of the expenses waived for the fiscal year ended December 31, 2015; December 31, 2014, and for the period from January 18, 2013 to December 31, 2013 was to decrease the expense ratios, thus increasing the net investment income ratio to average net assets by 0.42%; 0.44%, and 0.47%, respectively.

The accompanying notes are an integral part of these financial statements.

U.S. MUNICIPAL & INCOME FUND, INC.
SCHEDULE OF INVESTMENTS
December 31, 2015

Face Amount		Issuer	Coupon	Next Callable Date ^c	Maturity Date	Value
Puerto Rico Taxable Obligations - 12.83% of net assets applicable to common shareholders, total cost of \$15,000,000						
\$ 15,000,000	G	Autopistas Metropolitanas de Puerto Rico, 144A security	6.75%	E	06/30/35	\$ 12,476,970
Principal Outstanding Amount						
Puerto Rico GNMA Taxable - 4.28% of net assets applicable to common shareholders, total cost of \$4,090,514						
\$ 3,773,730	A	GNMA Pool 693267	5.60%	04/15/23	04/15/37	\$ 4,160,379
Puerto Rico FNMA Taxable - 14.42% of net assets applicable to common shareholders, total cost of \$14,181,552						
\$ 2,433,168		FNMA Pool AP1207	3.50%		02/01/43	\$ 2,516,363
4,235,554		FNMA Pool AR5155	3.50%		04/01/43	4,380,389
708,464		FNMA Pool 850032	5.50%		09/01/40	818,139
6,097,431		FNMA Pool AR5162	3.50%		05/01/43	6,305,939
\$ 13,474,618	B					\$ 14,020,830

Face Amount		Issuer	Coupon	Next Callable Date ^c	Maturity Date	Value
US Municipals - 129.49% of net assets applicable to common shareholders, total cost of \$125,059,315						
\$ 1,500,000	F D	Bay Area Toll Authority	7.04%	E	04/01/50	\$ 2,064,270
2,705,000	F D	Chicago O'Hare International Airport	6.40%	E	01/01/40	3,386,390
2,785,000	F D	Chicago Transit Authority	6.20%	E	12/01/40	3,003,121
1,000,000	D	City & County of Denver Colorado General Obligations	5.65%	08/01/20	08/01/30	1,134,200
2,410,000	F D	City of Los Angeles Department of Airports	6.58%	E	05/15/39	3,086,583
1,045,000	D	City of New York General Obligations	5.85%	E	06/01/40	1,298,663
3,000,000	F D	City of San Francisco CA Public Utilities Commission Water Revenue	6.95%	E	11/01/50	4,197,210
2,035,000	F D	Clark County Department of Aviation	6.82%	E	07/01/45	2,802,806
1,500,000	F	Cobb-Marietta Coliseum & Exhibit Hall Authority	4.50%	E	01/01/47	1,516,260
2,085,000	F D	Colorado Bridge Enterprise	6.08%	E	12/01/40	2,595,783
3,000,000	F D	Dallas Convention Center Hotel Development Corp.	7.09%	E	01/01/42	3,855,030
1,210,000		Dallas County Hospital District General Obligations	5.62%	E	08/15/44	1,493,830
2,415,000	F D	Health Care Authority for Baptist Health	5.50%	E	11/15/43	2,435,503
3,000,000	F D	Illinois State Toll Highway Authority	6.18%	E	01/01/34	3,732,090
1,000,000	F	Indianapolis Public Improvement Bond Bank	6.12%	E	01/15/40	1,241,940
1,080,000	F	Kern County Water Agency Improvement District	6.65%	E	05/01/38	1,198,930
1,000,000	F D	Los Angeles California Department of Water and Power	6.01%	E	07/01/39	1,221,740
2,085,000	D	Los Angeles Community College District General Obligations	6.75%	E	08/01/49	2,946,209
1,015,000	F	Los Angeles County Public Works Financing Authority	7.62%	E	08/01/40	1,417,488
1,550,000	F D	Los Angeles County Public Works Financing Authority	7.49%	E	08/01/33	2,018,116
1,500,000	F D	Louisville & Jefferson County Metropolitan Sewer District	6.25%	E	05/15/43	1,897,665
2,520,000	F D	Metropolitan Government of Nashville & Davidson County Convention Center	6.73%	E	07/01/43	3,200,702
2,500,000	F D	Metropolitan Transportation Authority	7.34%	E	11/15/39	3,645,075
2,000,000	F D	Metropolitan Transportation Authority	6.81%	E	11/15/40	2,648,640
3,000,000	F	Metropolitan Washington Airports Authority	7.46%	E	10/01/46	4,034,190
2,005,000	F D	Metropolitan Water District of Southern California	6.95%	07/01/20	07/01/40	2,333,459
1,970,000	F D	Michigan Tobacco Settlement Finance Authority	7.31%	06/01/16	06/01/34	1,687,995
2,250,000	F D	Municipal Electric Authority of Georgia	7.06%	E	04/01/57	2,460,510
1,000,000	F	New Jersey State Turnpike Authority	7.10%	E	01/01/41	1,377,330
2,050,000	F D	New Jersey State Turnpike Authority	7.41%	E	01/01/40	2,913,788
2,400,000	F D	New Jersey Transportation Trust Fund Authority	6.56%	E	12/15/40	2,540,784
2,265,000	F D	New York City Transitional Finance Authority Building Aid Revenue	6.83%	E	07/15/40	2,988,124
1,500,000	F	New York City Water Finance Authority	6.12%	E	06/15/42	1,678,530
1,000,000	F	New York City Water Finance Authority	6.28%	E	06/15/42	1,138,530
2,565,000	F D	North Carolina Turnpike Authority	6.70%	01/01/19	01/01/39	2,840,789
2,000,000	F	North Texas Tollway Authority	6.72%	E	01/01/49	2,741,000
1,065,000	F D	Ohio State University	4.91%	E	06/01/40	1,194,366
2,155,000	F D	Orange County Local Transportation Authority	6.91%	E	02/15/41	2,903,733
1,210,000	F D	Pennsylvania Turnpike Commission	5.56%	E	12/01/49	1,400,466
1,330,000	F D	Port Authority of New York & New Jersey	5.65%	E	11/01/40	1,573,776
1,415,000	F D	Rutgers The State University of New Jersey	5.67%	E	05/01/40	1,681,360
1,065,000	F D	Sacramento Municipal Utility District	6.16%	E	05/15/36	1,293,656
1,060,000	F D	San Bernardino County Redevelopment Agency	8.50%	09/01/20	09/01/40	1,192,903
2,145,000	F	San Francisco City & County Redevelopment Agency	8.41%	E	08/01/39	2,704,759
1,000,000	F D	South Carolina State Public Service Authority	6.45%	E	01/01/50	1,251,910
2,000,000	D	State of California General Obligations	7.60%	E	11/01/40	2,972,800
2,745,000	D	State of Illinois General Obligations	6.73%	E	04/01/35	2,840,910
1,500,000		State of Mississippi General Obligations	5.25%	E	11/01/34	1,703,670
1,055,000		State of Washington General Obligations	5.48%	E	08/01/39	1,275,453
4,945,000	F	Tobacco Settlement Financing Corp.	6.71%	02/04/16	06/01/46	3,770,711
1,000,000	F	Tooele County Municipal Building Authority	8.00%	12/15/20	12/15/32	1,103,930
1,785,000	F D	University of California	5.95%	E	05/15/45	2,177,700
1,605,000	F D	University of California	4.13%	E	05/15/45	1,575,003
250,000	F D	University of Texas	6.28%	E	08/15/41	277,858
2,070,000	F D	Utah Transit Authority	5.94%	E	06/15/39	2,605,033
3,000,000	F D	Washington State Convention Center Public Facilities District	6.79%	E	07/01/40	3,667,350
\$ 104,345,000						\$ 125,940,620

US Municipals Zero Coupon - 0.58% of net assets applicable to common shareholders, total cost of \$515,550						
\$ 1,500,000		Alameda Corridor Transportation Authority	0.00%	Non-callable	10/01/31	\$ 567,808
Total investments (161.60% of net assets)						\$ 157,166,607
Other assets less liabilities (-61.60% of net assets)						(59,907,090)
Net assets applicable to common shareholders - 100%						\$ 97,259,517

Purchased	Issuer	Expiration Date	Underlying Notional Amount at Value	Unrealized Depreciation
Futures Contracts				
146 Contracts	Ultra Long Term U.S. Treasury Bond Futures	03/21/16	\$ 23,090,820	\$ (18,719)

The underlying notional amount at value of futures purchased is 23.74% of net assets applicable to common shareholders.

The accompanying notes are an integral part of these financial statements.

- A GNMA - represents mortgage-backed obligations guaranteed by the Government National Mortgage Association. It is a project loan with monthly principal amortizations, and is callable at the option of the mortgages on the date shown. As a result, the average life may be substantially less than the original maturity.
- B FNMA - represents mortgage-backed obligations guaranteed by the Federal National Mortgage Association. They are subject to principal paydowns as a result of pre-payments or refinancing of the underlying mortgage instruments. As a result, the average life may be substantially less than the original maturity.
- C The issuer has the ability, but not the obligation, to call these securities on these dates.
- D A portion or all of the security has been pledged as collateral for securities sold under repurchase agreements and collateralized notes payable.
- E These securities are subject to redemption prior to the maturity at the option of the issuer on any Business Day, at a redemption price, which is either not less than the securities face amount or make-whole as defined in the prospectus.
- F Revenue Bonds - issued by agencies and payable from revenues and other sources of income of the agency as specified in the applicable prospectus.
- G Private Placement.

The accompanying notes are an integral part of these financial statements.

U.S. Municipal & Income Fund, Inc.**STATEMENT OF ASSETS AND LIABILITIES****December 31, 2015**

Assets:	Investments in securities:		
	Securities pledged as collateral on repurchase agreements and line of credit, at value, of which \$64,290,194 has the right to be replugged (identified cost - \$87,497,043)	\$	87,852,409
	Other securities, at value (identified cost - \$71,349,888)		69,314,198
	Cash		1,587,641
	Cash restricted for futures contracts		585,381
	Interest receivable		2,001,786
	Due from broker		26,906
	Subscriptions receivable		48,601
	Prepaid expenses and other assets		4,851
	Total assets		<u>161,421,773</u>

Liabilities:	Securities sold under repurchase agreements, including \$15,350,000 with affiliates		52,333,000
	Line of Credit		10,350,000
	Redemptions payable		1,198,893
	Variation margin payable		45,625
	Payables:		
	Interest and leverage expenses	37,980	
	Investment advisory fees	68,522	
	Distribution and service fees	18,720	
	Administration fee	20,557	145,779
	Accrued expenses and other liabilities		88,959
	Total liabilities		<u>64,162,256</u>

Net Assets Applicable to Common Shareholders:	\$	97,259,517
--	-----------	-------------------

**Net Assets Applicable to
Common Shareholders
consist of:**

Capital Stock, \$0.01 par value, 88,000,000 shares authorized, 10,056,837 shares issued and outstanding	\$	100,568
Additional paid-in capital		101,194,055
Undistributed net investment income (Note 1 and Note 11)		3,430,066
Accumulated net realized loss from investments and futures contracts		(5,766,129)
Unrealized net depreciation from investments and futures contracts		(1,699,043)
Net assets applicable to common shareholders	\$	<u>97,259,517</u>
Shares outstanding at end of period		<u>10,056,837</u>
Net asset value per share	\$	<u>9.67</u>

The accompanying notes are an integral part of these financial statements.

U.S. Municipal & Income Fund, Inc.**STATEMENT OF OPERATIONS**

For the fiscal year
ended December 31,
2015

Investment Income:	Interest	\$ 7,411,646
---------------------------	----------	--------------

Expenses:	Interest and leverage related expenses	497,028
	Investment advisory fees	1,176,637
	Administration fees	235,327
	Distribution and service fees	234,018
	Custodian fees	20,007
	Sub transfer agent fees	14,043
	Professional fees	124,289
	Directors' fees and expenses	43,666
	Insurance expense	72,373
	Other	31,903
	Total expenses	2,449,291
	Waived investment advisory fees	(392,212)
	Net expenses after waived fees by investment adviser fees	2,057,079

Net Investment Income:	5,354,567
-------------------------------	-----------

Realized Loss and Unrealized Depreciation on Investments and Futures Contracts:	Net realized loss on investments	(796,774)
	Net realized loss on futures contracts	(851,578)
	Change in unrealized net depreciation on investments	(4,989,840)
	Change in unrealized net depreciation on futures contracts	1,474,812
	Total net realized and unrealized loss on investments and futures contracts	(5,163,380)

Net increase in net assets resulting from operations	\$ 191,187
---	-------------------

The accompanying notes are an integral part of these financial statements.

U.S. Municipal & Income Fund, Inc.**STATEMENT OF CHANGES IN NET ASSETS**

		For the fiscal year ended December 31, 2015	For the fiscal year ended December 31, 2014
Increase in Net Assets:			
	Net investment income	\$ 5,354,567	\$ 5,981,275
	Net realized loss on investments	(796,774)	(611,801)
	Net realized loss on futures contracts	(851,578)	(1,224,938)
	Change in unrealized net (depreciation) appreciation on investments	(4,989,840)	19,766,501
	Change in unrealized net appreciation (depreciation) on futures contracts	1,474,812	(1,493,531)
	Net increase in net assets resulting from operations	<u>191,187</u>	<u>22,417,506</u>
Dividends to Common Shareholders From:	Net investment income	<u>(4,639,266)</u>	<u>(4,564,313)</u>
Share Transactions:	Shares sold	30,113,518	15,326,172
	Shares redeemed	(20,298,193)	(33,891,182)
	Shares reinvested	1,659,768	2,294,117
		<u>11,475,093</u>	<u>(16,270,893)</u>
Net Assets:	Net increase in net assets applicable to common shareholders	7,027,014	1,582,300
	Net assets at the beginning of the year	<u>90,232,503</u>	<u>88,650,203</u>
	Net assets at the end of the year	<u>\$ 97,259,517</u>	<u>\$ 90,232,503</u>

The accompanying notes are an integral part of these financial statements.

U.S. Municipal & Income Fund, Inc.

STATEMENT OF CASH FLOWS

For the fiscal year
ended December 31,
2015

Increase (Decrease) in Cash

Cash Used in Operations:	Net increase in net assets from operations	\$	191,187
	Adjusted by:		
	Purchases of portfolio securities		(27,135,110)
	Proceeds from sale of portfolio securities		11,503,323
	Call and paydowns of portfolio securities		4,417,844
	Net realized loss on investments		796,774
	Change in unrealized depreciation on investments		4,989,840
	Change in unrealized depreciation on futures contracts		(1,474,812)
	Accretion of discounts on investments		(72,349)
	Amortization of premiums on investments		897,932
	Increase in interest receivable		(241,818)
	Decrease in prepaid and other assets		1,212
	Decrease in cash restricted for futures contracts		863,400
	Increase in interest and leverage expenses payable		11,859
	Increase in investment advisory fees payable		2,082
	Increase in administration fees payable		625
	Increase in distribution and service fee payable		1,990
	Increase in accrued expenses and other liabilities		5,045
	Total cash used in operations		<u>(5,240,976)</u>

Cash Provided by Financing Activities:	Securities sold under repurchase agreements, net of issuances of \$746,421,025	(13,324,664)
	Line of Credit	10,350,000
	Proceeds from shares sold	30,113,518
	Dividends to common shareholders paid in cash	(2,979,498)
	Redemption of common shares	(20,298,193)
	Decrease in subscriptions receivable	33,975
	Increase in redemptions payable	1,198,893
	Total cash provided by financing activities	<u>5,094,031</u>

Cash:	Net decrease in cash for the year	(146,945)
	Cash at the beginning of the year	1,734,586
	Cash at the end of the year	<u>\$ 1,587,641</u>

Cash Flow Information:	Cash paid for interest and leverage related expenses	\$ 485,169
	Non-cash activities-dividends reinvested by common shareholders	<u>\$ 1,659,768</u>

The accompanying notes are an integral part of these financial statements.

U.S. Municipal & Income Fund, Inc.
Notes to Financial Statements
December 31, 2015

1. Reporting Entity and Significant Accounting Policies

U.S. Municipal & Income Fund, Inc. (the "Fund") is a non-diversified, open-end management investment company. The Fund is a corporation organized under the laws of the Commonwealth of Puerto Rico and is registered as an investment company under the Puerto Rico Investment Companies Act of 1954, as amended (the "Puerto Rico Investment Companies Act"). The Fund was incorporated on September 27, 2012 and commenced operations on January 18, 2013.

The Fund is divided into a Puerto Rico taxable securities portion and a U.S. portion (consisting primarily of United States municipal securities). UBS Asset Managers of Puerto Rico, a division of UBS Trust Company of Puerto Rico ("UBSTC"), is the Fund's Investment Adviser (the "Investment Adviser") and directly manages the Puerto Rico taxable securities portion and Nuveen Asset Management, LLC is the sub-investment adviser managing the U.S. portion. UBSTC is also the Fund's Administrator (the "Administrator").

The Fund's investment objective is to provide current income, consistent with the preservation of capital.

The following is a summary of the Fund's significant accounting policies:

Use of Estimates in Financial Statements Preparation

The accompanying financial statements of the Fund have been prepared on the basis of accounting principles generally accepted in the United States of America ("GAAP"). The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

Net Asset Value Per Share

The net asset value per share of the Fund is determined daily by the Administrator after the close of trading on the New York Stock Exchange (NYSE), or if such day is not a business day in New York City and Puerto Rico, on the next succeeding business day. The net asset value per share is computed by dividing the assets of the Fund less its liabilities, by the number of outstanding shares of the Fund.

Valuation of Investments

All securities are valued by UBSTC, on the basis of valuations provided by pricing services or by dealers which were approved by the Fund's management and the Board of Directors. In arriving at their valuation, pricing sources may use both a grid matrix of securities values as well as the evaluations of their staff. The valuation, in either case, is based on information concerning actual market transactions and quotations from dealers or a grid matrix performed by an outside vendor that reviews certain market and security factors to arrive at a bid price for a specific security. Certain Puerto Rico obligations have a limited number of market participants and thus, might not have a readily ascertainable market value and may have periods of illiquidity. Certain securities of the Fund for which quotations are not readily available from any source, are valued at fair value by or under the direction of the Investment Adviser utilizing quotations and other information concerning similar securities obtained from recognized dealers. The Investment Adviser can override any price that it believes is not consistent with market conditions.

U.S. Municipal & Income Fund, Inc.
Notes to Financial Statements
December 31, 2015

The Investment Adviser has established a Valuation Committee (the "Committee") which is responsible for overseeing the pricing and valuation of all securities held in the Fund. The Committee operates under pricing and valuation policies and procedures established by the Investment Adviser and approved by the Board of Directors. The policies and procedures set forth the mechanisms and processes to be employed on a weekly basis related to the valuation of portfolio securities for the purpose of determining the net asset value of the Fund. The Committee reports to the Board of Directors on a regular basis. At December 31, 2015, no investment securities market values were determined by the Committee.

GAAP provides a framework for measuring fair value and expands disclosures about fair value measurements and requires disclosures surrounding the various inputs that are used in determining the fair value of the Fund's investments. These inputs are summarized in three (3) broad levels listed below:

- Level 1 - Quoted prices in active markets for identical assets and liabilities at the measurement date. An active market is one in which transactions for the assets occur with sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 - Significant inputs other than quoted prices that are observable (including quoted prices for similar securities, interest rates, pre-payment speeds, credit risk, etc.), either directly or indirectly.
- Level 3 - Significant unobservable inputs, for example, inputs derived through extrapolation that cannot be corroborated by observable market data. These will be developed based on the best information available in the circumstances, which might include UBSTC's own data. Level 3 inputs will consider the assumptions that market participants would use in pricing the asset, including assumptions about risk (e.g., credit risk, model risk, etc.).

The Fund maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the observable inputs be used when available. Fair value is based upon quoted market prices when available. Valuation adjustments are limited to those necessary to ensure that the financial instrument's fair value is adequately representative of the price that would be received or paid in the marketplace. These adjustments include amounts that reflect counterparty credit quality, the Fund's credit standing, constraints on liquidity, and unobservable parameters that are applied consistently.

The estimated fair value may be subjective in nature and may involve uncertainties and matters of significant judgment for certain financial instruments. Changes in the underlying assumptions used in calculating fair value could significantly affect the results. Therefore, the estimated fair value may materially differ from the value that could actually be realized on sale.

Following is a description of the Fund's valuation methodologies used for assets and liabilities measured at fair value:

Puerto Rico Taxable Obligations: Price for these securities is obtained from third-party service providers. Third-party service providers use a pricing methodology based on observable market inputs. These securities trade in over-the-counter markets. Quoted prices are based on recent trading activity for similar instruments. This note is classified as Level 2.

Mortgage-Backed Securities: Fair value for these securities is obtained from third-party pricing service providers that use a pricing methodology based on observable market inputs. Certain agency mortgage backed securities ("MBS") are priced based on a bond's theoretical value from similar

U.S. Municipal & Income Fund, Inc.
Notes to Financial Statements
December 31, 2015

bonds; the term “similar” being defined by credit quality and market sector. Their fair value incorporates an option adjusted spread. The agency MBS are classified as Level 2.

U.S. Municipal Obligations: The fair value of U.S. municipal obligations is obtained from third-party pricing service providers that use a pricing methodology based on an active exchange market and based on quoted market prices for similar securities. These securities are classified as Level 2.

Futures contracts: Futures contracts are valued at the quoted daily settlement prices established by the exchange on which they trade and are classified as Level 1.

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

The following is a summary of the portfolio by inputs used as of December 31, 2015 in valuing the Fund’s investments carried at fair value:

Investments in Securities and Futures Contracts				
	Level 1	Level 2	Level 3	Balance 12/31/2015
Puerto Rico Taxable Obligations	\$ -	\$ 12,476,970	\$ -	\$ 12,476,970
Puerto Rico GNMA Taxable	-	4,160,379	-	4,160,379
Puerto Rico FNMA Taxable	-	14,020,830	-	14,020,830
US Municipals	-	126,508,428	-	126,508,428
Subtotal	<u>\$ -</u>	<u>\$ 157,166,607</u>	<u>\$ -</u>	<u>\$ 157,166,607</u>
Futures Contracts*	(18,719)	-	-	(18,719)
Total	<u>\$ (18,719)</u>	<u>\$ 157,166,607</u>	<u>\$ -</u>	<u>\$ 157,147,888</u>

* Includes cumulative appreciation/depreciation of futures contracts as reported in the Schedule of Investments. Only the current day’s variation margin is reported within the Statement of Assets and Liabilities in variation margin payable, while the remaining amount is presented as due from broker.

There were no Level 3 securities during the year ended December 31, 2015.

Temporary cash investments are valued at amortized cost, which approximates market value.

Taxation

As a registered investment company under the Puerto Rico Investment Companies Act, the Fund will not be subject to Puerto Rico income tax for any taxable year if it distributes at least 90% of its taxable net investment income for such year, as determined for these purposes. Accordingly, as the Fund intends to meet this distribution requirement, the income earned by the Fund is not subject to Puerto Rico income tax at the Fund level.

The Fund can invest in taxable and tax-exempt securities. In general, distributions of taxable income dividends, if any, to Puerto Rico individuals, estates, and trusts are subject to a withholding tax of (i) 10% in the case of dividends distributed before July 1, 2014, and (ii) 15% in the case of dividends distributed after June 30, 2014, if certain requirements are met. Moreover, distribution of capital gains dividends, if any, to (a) Puerto Rico individuals, estates, and trusts are subject to a tax of (i) 10% in the case of dividends distributed before July 1, 2014, and (ii) 15% in the case of dividends distributed after June 30, 2014, and (b) Puerto Rico corporations are subject to a tax of (i) 15% in the case of dividends distributed before July 1, 2014, and (ii) 20% in the case of dividends distributed after June 30, 2014. Tax withholdings are effected at the time of payment of the corresponding dividend. Otherwise, taxable distributions will be subject to regular income tax. Individual shareholders may be subject to alternate basic tax on certain fund distributions. Certain Puerto Rico

U.S. Municipal & Income Fund, Inc.
Notes to Financial Statements
December 31, 2015

entities receiving taxable income dividends are entitled to claim an 85% dividends received deduction. Fund shareholders are advised to consult their own tax advisers.

GAAP requires the evaluation of tax positions taken or expected to be taken in the course of preparing the Fund's tax return to determine whether the tax positions are "more-likely-than-not" of being sustained by the applicable tax authority. Tax positions not deemed to meet the "more-likely-than-not" threshold are recorded as a tax benefit or expense in the current year. Management has analyzed the Fund's tax positions taken on its Puerto Rico income tax returns for all open tax years (the current and prior three (3) tax years) and has concluded that there are no uncertain tax positions. On an ongoing basis, management will monitor the Fund's tax position to determine if adjustments to this conclusion are necessary.

Statement of Cash Flows

The Fund issues its shares, invests in securities, and distributes dividends from net investment income and net realized gains which are paid in cash. These activities are reported in the Statements of Changes in Net Assets. Additional information on cash receipts and payments is presented in the Statement of Cash Flows.

Accounting practices that do not affect the reporting of activities on a cash basis include carrying investments at fair value and amortizing premiums or discounts on debt obligations. Cash, as presented on the Statement of Assets and Liabilities, does not include short-term investments.

Dividends and Distributions to Shareholders

The Fund intends to distribute to its shareholders substantially all of its net investment income. However, the Fund may elect to distribute less of its net investment income if, in the judgment of the Investment Adviser, such reduced distribution is in the best economic interests of the Fund's shareholders. Such distributions, if any, shall be paid by the Fund on no less than a monthly basis. Distributions on shares will be reinvested at the net asset value per share determined on the ex-dividend date.

Futures contracts

Futures contracts provide for the future exchange of a specified security at a specified future time and at a specified price. Upon entering into a financial futures contract, the Fund is required to pledge to a Futures Commission Merchant ("FCM"), an amount per contract as determined by an exchange of cash, U.S. government securities, or other assets, otherwise known as "initial margin". Subsequent payments, known as variation margin, are made or received by the Fund each day, depending on the daily fluctuations in the price of the futures contract. The Fund recognizes an unrealized gain or loss equal to the aggregate daily variation margin until the contract is closed out, at which time the Fund realizes a gain or loss. There are several risks accompanying the utilization of futures contracts. First, positions in futures contracts may be closed only on an exchange. While the Fund plans to utilize futures contracts only if there exists an active market for such contracts, there is no guarantee that a liquid market will exist for the contracts at a specified time.

Furthermore, because, by definition, futures contracts reflect expectations of projected reference instrument or index price levels, and not necessarily current market levels, circumstances may result in discrepancies between changes in the price of the futures contract and the movement in the reference instrument or index. The absence of a perfect price correlation between the futures contract and its underlying instrument or index could stem from, among other things, changing assumptions regarding the financing cost of the underlying instrument or index, changing assumptions regarding the implied volatility of the underlying index or instrument, and / or changing assumptions regarding the ease of sourcing the instrument or index for eventual delivery into the futures contract.

U.S. Municipal & Income Fund, Inc.
Notes to Financial Statements
December 31, 2015

The Fund utilizes U.S. treasury futures contracts that are traded at the Chicago Mercantile Exchange ("CME"), a registered futures exchange. By investing in futures contracts, the Investment Adviser seeks to alter the interest rate sensitivity, also known as duration, of the Fund. The relationship between interest rates on the underlying assets of the Fund and on the value of futures contracts may or may not remain constant. As a result, the use of futures may or may not alter the interest rate sensitivity of the Fund as expected by the Investment Advisor, and may result in unexpected gains or losses.

Securities Sold Under Repurchase Agreements

Under these agreements, the Fund sells securities, receives cash in exchange, and agrees to repurchase the securities at a mutually agreed date and price. Ordinarily, those counterparties with which the Fund enters into these agreements require delivery of collateral and are able to sell or repledge the collateral; however, the Fund retains effective control over such collateral through the agreement to repurchase the collateral on or by the maturity of the repurchase agreement. These transactions are treated as financings and recorded as liabilities. Therefore, no gain or loss is recognized on the transaction, and the securities pledged as collateral remain recorded as assets of the Fund. These agreements involve the risk that the market value of the securities purchased with the proceeds from the sale of securities received by the Fund, may decline below the price of the securities that the Fund is obligated to repurchase, and that the value of the collateral posted by the Fund increases in value and the counterparty does not return it. Because the Fund borrows under repurchase agreements based on the estimated fair value of the pledged assets, the Fund's ongoing ability to borrow under its repurchase facilities may be limited and its lenders may initiate margin calls in the event of adverse changes in the market. A decrease in market value of the pledged assets may require the Fund to post additional collateral or otherwise sell assets at a time when it may not be in the best interest of the Fund to do so.

Paydowns

Realized gains or losses on mortgage-backed security paydowns are recorded as an adjustment to interest income. During the fiscal year ended December 31, 2015, the Fund decreased interest income in the amount of \$86,563 related to net realized losses on mortgage-backed securities paydowns. The Fund declares and pays monthly dividends from net investment income. For purposes of compliance with the 90% distribution threshold for the Fund's tax exemption, gains and losses related to mortgage-backed security paydowns are not included in net investment income. See Note 11 for a reconciliation between taxable and book net investment income.

Preferred Shares

Pursuant to the Fund's Certificate of Incorporation, as amended and supplemented, the Fund's Board of Directors is authorized to issue up to 12,000,000 preferred shares with a par value of \$25, in one or more series. During the fiscal year ended December 31, 2015, no preferred shares were issued or outstanding.

Other

Security transactions are accounted for on a trade date plus one basis for daily net asset value calculations. However, for financial reporting purposes, investment transactions are reported on trade date. Realized gains and losses on security transactions are determined on the identified cost method. Premiums and discounts on securities purchased are amortized using the interest method over the life or the expected life of the respective securities. Interest and dividend income is accrued on a daily basis, except when collection is not expected.

U.S. Municipal & Income Fund, Inc.
Notes to Financial Statements
December 31, 2015

2. Investment Advisory, Administrative, Custodian, Transfer Agency Agreements, and Other Transactions With Affiliates

Advisory Fees:

Pursuant to an investment advisory contract (the "Advisory Agreement") with UBS Asset Managers of Puerto Rico, a division of UBSTC, the Fund receives investment advisory services in exchange for a fee. The investment advisory fee will not exceed 0.75% of the Fund's average daily gross assets. For the fiscal year ended December 31, 2015, investment advisory fees amounted to \$1,176,637, equivalent to 0.75% of the Fund's average daily gross assets. The Investment Advisor voluntarily waived investment advisory fees in the amount of \$392,212, for a net fee of \$784,425, which represents an effective annual rate of 0.50%.

Sub-Advisory Fees:

The Advisory Agreement authorizes the Investment Adviser to retain one or more sub-advisers for the management of the Fund and the Investment Adviser entered into a sub-advisory agreement (the "Sub-Advisory Agreement") with Nuveen Asset Management (the "sub-adviser") on behalf of the Fund. Pursuant to the Sub-Advisory Agreement, and under the supervision of the Investment Adviser and the Board of Directors, the sub-adviser will be responsible for the day to day investment management of up to 80% of the Fund's assets, which it will invest primarily in U.S. municipal securities. The Investment Adviser will pay the sub-adviser an annual fee not to exceed 0.25% of the average daily gross assets.

Administration, Custodian and Transfer Agent Fees:

UBSTC also provides administrative, custody, and transfer agency services pursuant to Administration, Custodian, and Transfer Agency, Registrar, and Shareholder Servicing Agreements. The Transfer Agent has engaged Bank of New York Mellon Investment Servicing to act as recordkeeping and shareholder servicing agent for the Fund. The compensation paid by the Fund to the Transfer Agent under the Transfer Agent Agreement is equal to the compensation that the Transfer Agent is required to pay to Bank of New York Mellon Investment Servicing, from time to time, for services to the Fund. UBSTC provides facilities and personnel to the Fund for the performance of its administration duties. For the fiscal year ended December 31, 2015, the gross fee for such services amounted to \$235,327, which is equivalent to 0.15% of the Fund's average daily gross assets.

Expense Limitation and Reimbursement Agreement:

UBSTC and the Fund have entered into an agreement whereby UBSTC agrees to assume the operating expenses of the Fund relating to services rendered to the Fund in the ordinary course of business, including but not limited to shareholder services, custodial and transfer agency fees, legal, regulatory and accounting fees, printing costs, and registration fees (collectively, the "Other Expenses") in order to maintain the Fund's total annual fund operating expenses ("Total Expenses") at a level which is no greater than 1.00% of the Fund's daily gross assets, subject to future reimbursement by the Fund.

The Fund agrees to reimburse UBSTC for the Other Expenses of the Fund that are paid by UBSTC pursuant to the agreement at such time as the Total Expenses for the Fund fall below the amounts set forth above for the annual period; provided that such reimbursement does not cause the Fund's Total Expenses to exceed 1.00% of the Fund's daily gross assets and the reimbursement is made

U.S. Municipal & Income Fund, Inc.
Notes to Financial Statements
December 31, 2015

within three years after UBSTC paid the expense. There are no excess expenses potentially reimbursable to UBSTC at December 31, 2015.

Distribution and Service Fees:

UBSTC serves as distributor ("Distributor") of the shares of common stock of the Fund. Pursuant to a Distribution Plan, the Fund is authorized to pay the Distributor as compensation for its services a monthly distribution and service fee at an annual rate of 0.25% of the daily net assets of the Fund, which excludes the proceeds of leverage. For the fiscal year ended December 31, 2015, the distribution and service fees amounted to \$234,018.

The Fund is not registered under the U.S. Investment Company Act of 1940, as amended, and therefore, is not subject to the restrictions contained therein regarding, among other things, transactions between the Fund and UBS Financial Services Incorporated of Puerto Rico ("UBSFSPR"), or its affiliates ("Affiliated Transactions"). In that regard, the Board of Directors of the Fund adopted a set of Procedures for Affiliated Transactions ("Procedures") in an effort to address potential conflicts of interest that may arise. It is anticipated that Affiliated Transactions will continue to take place in the future and that any Affiliated Transactions will be subject to the Procedures.

Certain Fund officers and directors are also officers and directors of UBSTC. The eight (8) independent directors of the Fund's Board of Directors are paid based upon an agreed fee of \$1,000 per board meeting, plus expenses, and \$500 for each Audit Committee meeting plus expenses. For the fiscal year ended December 31, 2015, the eight (8) independent directors of the Fund were paid an aggregate compensation of approximately \$44,000.

Fund affiliates may have lending, banking, brokerage, underwriting, or other business relationships with the issuers of the securities in which the Fund invests.

The total amount (in thousands) of other affiliated and unaffiliated purchases and sales of investment securities and originations of securities sold under repurchase agreements, listed by counterparty, during the year were as follows:

	Purchases	%	Sales	%	Securities Sold Under Repurchase Agreements	%
UBS Puerto Rico	\$ -	-	\$ -	-	\$ 139,230	19%
Between Funds	802	3%	-	-	-	-
Unaffiliated	26,333	97%	11,503	100%	607,191	81%
	<u>\$ 27,135</u>	<u>100%</u>	<u>\$ 11,503</u>	<u>100%</u>	<u>\$ 746,421</u>	<u>100%</u>

Interest expense from securities sold under repurchase agreements with UBSFSPR and between affiliated funds during the year amounted to \$102,304.

U.S. Municipal & Income Fund, Inc.
Notes to Financial Statements
December 31, 2015

3. Capital Share Transactions

Capital share transactions for the fiscal years ended December 31, 2015 and 2014 were as follows:

Common Shares	2015	2014
Shares sold	\$ 30,113,518	\$ 15,326,172
Repurchase of shares	(20,298,193)	(33,891,182)
Proceeds from the reinvestment of dividends	1,659,768	2,294,117
	<u>\$ 11,475,093</u>	<u>\$ (16,270,893)</u>

Share transactions for the fiscal years ended December 31, 2015 and 2014 were as follows:

Common shares	2015	2014
Common shares - beginning of fiscal year	8,886,174	10,520,237
Shares sold	3,063,821	1,605,345
Shares redeemed	(2,061,814)	(3,483,527)
Shares reinvested	168,656	244,119
Common shares - end of fiscal year	<u>10,056,837</u>	<u>8,886,174</u>

4. Investment Transactions

The cost of securities purchased and proceeds from sales and calls of portfolio securities (in thousands), excluding short-term investments, for the fiscal year ended December 31, 2015 were as follows:

	Purchases	Sales	Calls and Paydowns
Puerto Rico Obligations	\$ 802	\$ -	\$ 1,663
US Obligations	<u>26,333</u>	<u>11,503</u>	<u>2,755</u>
	<u>\$ 27,135</u>	<u>\$ 11,503</u>	<u>\$ 4,418</u>

Fitch Ratings ("Fitch"), Moody's Investors Services ("Moody's"), and Standard & Poor's Rating Services ("S&P") have recently downgraded further the general obligation bonds ("GOs") of the Commonwealth of Puerto Rico, as well as the obligations of certain Commonwealth agencies and public corporations, including Puerto Rico Sales Tax Financing Corporation ("COFINA"), on numerous occasions. On June 29, 2015, Fitch further downgraded the GOs and related debt ratings from "B" to "CC." Moody's followed suit on July 1, 2015 downgrading the GOs and COFINA's senior bonds to "Caa3." S&P further downgraded all of the Commonwealth of Puerto Rico's tax-backed debt to "CC" on September 10, 2015. All such ratings carry a negative outlook. Currently, none of the bonds issued by the Commonwealth and its instrumentalities without credit enhancement carry an investment-grade credit rating.

On June 2015, the P.R. Government presented the report "Puerto Rico--A Way Forward," which identified a deteriorating cash flow position and central government budget gaps approaching the size of current year general fund revenues. Subsequently, the Working Group for the Fiscal and Economic Recovery of Puerto Rico (the "Working Group") released the Puerto Rico Fiscal and Economic Growth Plan (the "Plan") recommending the restructuring of all tax-backed debt, including GOs and bonds issued by COFINA. The Plan was amended in January 18, 2016 to reflect an increase in the projected deficit over the first five years by approximately \$2.1 billion. In furtherance

U.S. Municipal & Income Fund, Inc.
Notes to Financial Statements
December 31, 2015

of its intention to restructure the \$72 billion debt load, the Government of Puerto Rico enacted the Public Corporations Debt Enforcement and Recovery Act (the "Recovery Act") and is lobbying the U.S. Congress to amend Chapter 9 of the U.S. Bankruptcy Code, to cover the central government and its instrumentalities. The U.S. District Court for the District of Puerto Rico declared the Recovery Act unconstitutional. Such ruling is pending appeal before the U.S. Supreme Court.

On August 2015, the Puerto Rico Public Finance Corporation ("PFC") failed to make a \$58 million payment on its debt, representing the first default on Puerto Rico agency debt. Thereafter, on November 30, 2015, the Governor redirected available revenues from the Highways and Transportation Authority, the Puerto Rico Infrastructure Financing Authority ("AFI"), the Metropolitan Bus Authority, and the Integrated Transport Authority, to make principal and interest payments on GOs, which are guaranteed by the Puerto Rico Constitution. The Puerto Rico Tourism Company was also ordered to transfer amounts collected on certain taxes to the P.R. Treasury, towards the payment of obligations of the Puerto Rico Convention Center District Authority. On December 30, 2015, the Governor announced that the Commonwealth would make all bond payments due on January 4, 2016, except for \$37.3 million in interest corresponding to \$35.9 million of AFI bonds and \$1.4 million of PFC bonds. In this context, one could expect to see additional interruptions in cash flow on debt payments, in addition to more price volatility across Puerto Rico securities, as the results of many of the fiscal and budgetary measures adopted and to be adopted in the future by the Government of Puerto Rico are fully realized and a debt restructuring is implemented. The Fund does not own any securities issued by the Commonwealth of Puerto Rico, its agencies or municipalities.

5. Futures Contracts

The Fund engaged in the following transactions during the year ended December 31, 2015 related to futures contracts:

	No. of Contracts	Notional Amount at Cost	Net Unrealized (Loss) Gain	Notional Amount at Value
Balance at beginning of the year	(179)	\$ (28,058,259)	\$ (1,493,531)	\$ (29,551,790)
Purchases	(632)	(101,441,326)		
Sales	665	106,427,484		
Balance at end of the year*	(146)	\$ (23,072,101)	\$ (18,719)	\$ (23,090,820)

* As of December 31, 2015 the Fund had 146 Ultra Long Term U.S. Treasury Bond futures contracts that expire on March 21, 2016.

The average underlying notional amount of futures contracts during the year amounted to \$26,483,590.

At December 31, 2015, cash amounting to \$585,381 were pledged as collateral for futures contracts.

The following tables present the effect of futures contracts on the Statement of Operations for the year ended December 31, 2015:

Amount of realized gain (loss) on futures contracts recognized in income:

Derivative Contract	Realized Loss
Futures contract	\$ (851,578)

Amount of change in unrealized depreciation on futures contracts recognized in income:

Derivative Contract	Unrealized Depreciation
Futures contract	\$ 1,474,812

U.S. Municipal & Income Fund, Inc.
Notes to Financial Statements
December 31, 2015

The following table presents the Fund's futures contracts by counterparty and the related collateral pledged by the Fund at December 31, 2015:

Counterparty	Gross Amount of Futures Contracts Presented in the Statement of Assets and Liabilities	Futures Contracts Available for Offset	Collateral Posted (a)	Net Amount Due To Counterparty (not less than zero)
Citigroup, New York	\$ (18,719)	\$ -	\$ (18,719)	\$ -

(a) Collateral received or posted is limited to the net futures contracts liabilities amounts. See above for actual collateral received and posted.

6. Securities Sold Under Repurchase Agreements

Securities sold under repurchase agreements amounted to \$52,333,000 at December 31, 2015, and related information is as follows:

Weighted average interest rate at end of the year	0.99 %
Maximum aggregate balance outstanding at any time of the year	\$ 68,529,333
Average balance outstanding during the year	\$ 59,984,673
Average interest rate during the year	0.77 %

At December 31, 2015, interest rates on securities sold under repurchase agreements ranged from 0.74% to 1.25%, with maturity dates up to February 10, 2016.

At December 31, 2015, investment securities amounting to \$64,290,194 were pledged as collateral for securities sold under repurchase agreements. The counterparties have the right to sell or repledge the assets during the term of the repurchase agreement with the Fund. Interest payable on securities sold under repurchase agreements amounted to \$37,633 at December 31, 2015.

The following table presents the Fund's repurchase agreements by counterparty and the related collateral pledged by the Fund at December 31, 2015:

Counterparty	Gross Amount of Securities Sold Under Repurchase Agreements Presented in the Statement of Assets and Liabilities	Securities Sold Under Repurchase Agreements Available for Offset	Collateral Posted (a)	Net Amount Due To Counterparty (not less than zero)
Citigroup, New York	\$ 20,440,000	\$ -	\$ 20,440,000	\$ -
JP Morgan, New York	16,543,000	-	16,543,000	-
UBS, New Jersey (+)	15,350,000	-	15,350,000	-
TOTAL	\$ 52,333,000	\$ -	\$ 52,333,000	\$ -

(+) affiliate of the Fund.

(a) Collateral received or posted is limited to the net securities sold under repurchase agreements liability amounts. See above for actual collateral received and posted.

U.S. Municipal & Income Fund, Inc.
Notes to Financial Statements
December 31, 2015

7. Line of Credit

Effective on August 5, 2015, the Fund has granted Societe Generale a security interest pursuant to the Credit Agreement between the Fund and Societe Generale. The Fund agrees to provide and at all times maintain adequate margin in the account pursuant to the terms and conditions of the Credit Agreement. Upon notice from Societe Generale that the value of the pledged assets is less than the margin required by Societe Generale under the Credit Agreement, the Fund shall deposit in the account additional property acceptable to Societe Generale with a value sufficient to remedy such deficiency. For the year ended December 31, 2015, the Fund had a line of credit amounting to \$10,350,000, and related information is as follows:

Maximum aggregate balance outstanding at any time of the year	<u>\$ 10,350,000</u>
Average balance outstanding during the year	<u>\$ 2,712,022</u>
Average interest rate during the year	<u>0.95 %</u>

At December 31, 2015, investment securities amounting to \$23,562,215 were pledged as collateral for the line of credit. Interest payable on the line of credit with Societe Generale amounted to \$347 at December 31, 2015.

8. Short-Term Financial Instruments

The fair value of short-term financial instruments, which includes \$52,333,000 of securities sold under repurchase agreements, are substantially the same as the carrying amount reflected in the Statement of Assets and Liabilities, as these are reasonable estimates of fair values, given the relatively short period of time between origination of the instrument and their expected realization.

9. Concentration of Credit Risk

Concentration of credit risk that arises from financial instruments exists for groups of customers or counterparties when they have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

The major concentration of credit risk arises from the Fund's investment securities in relation to the location of the issuers of such investment securities. For calculating concentration, all securities guaranteed by the U.S. Government or any of its subdivisions are excluded. At December 31, 2015, the Fund had investments with an aggregate market value of approximately \$12,476,970, which were issued by corporate entities located in the Commonwealth of Puerto Rico and are not guaranteed by the Puerto Rico Government, the U.S. Government or any of its subdivisions. Also, at December 31, 2015, the Fund had investments with an aggregate market value amounting to \$126,508,428, which were issued by various municipalities located in the United States and not guaranteed by the U.S. Government.

The value of fixed income securities, such as those in which the Fund may invest, generally can be expected to fall when interest rates rise and to rise when interest rates fall. Interest rate risk is the risk that interest rates will rise, and that as a result the value of the Fund's investments will fall. The Fund is subject to interest rate risk. Prices of longer term fixed income securities generally change more in response to interest rate changes than prices of shorter term fixed income securities. Because the Fund will invest primarily in long term fixed income securities, the net asset value and

U.S. Municipal & Income Fund, Inc.
Notes to Financial Statements
December 31, 2015

market price per share of its common stock will fluctuate more in response to changes in market interest rates than if the Fund invested primarily in shorter term fixed income securities.

As stated in its Prospectus for common stock, the Fund must invest at least 20% of its total assets in taxable securities issued by Puerto Rico issuers. These include securities issued by the Commonwealth of Puerto Rico and its political subdivisions, mortgage-backed and asset-backed securities, bank deposits, reverse repurchase agreements, corporate obligations and preferred stock of Puerto Rico entities, and other securities that the Investment Adviser may select, consistent with the Fund's investment objective and policies as defined in such Prospectus. Therefore, the Fund is more susceptible to factors affecting Puerto Rico issuers than an investment company that is not concentrated in Puerto Rico issuers to such degree.

10. Investment and Other Requirements and Limitations

The Fund is subject to certain requirements and limitations related to investments and leverage. Some of these requirements and limitations are imposed by statute or by regulation, while others are imposed by procedures established by the Board of Directors. The most significant requirements and limitations are discussed below.

As previously discussed, the Fund must invest at least 20% of its total assets in taxable securities issued by Puerto Rico issuers. Up to 80% of its total assets will be invested primarily in United States municipal securities.

The Fund's leverage, as measured in relation to total assets, may not exceed 50%. Should this ratio be exceeded, the Fund is precluded from further leverage transactions until the maximum 50% ratio is restored. In addition, the Fund may also borrow for temporary or emergency purposes in an amount of up to an additional 5% of its total assets.

As its investment policy, under normal conditions at least 95% of the Fund's total assets will be invested in securities which, at the time of purchase, are rated investment grade by a nationally recognized statistical rating organization, or which are determined by the Fund's Investment Adviser or sub-investment adviser to be of comparable credit quality.

11. Reconciliation Between Taxable and Book Net Investment Income

As a result of certain reclassifications made for financial statements presentation, the Fund's net investment income according to the financial statements is not the same net investment income for income tax purposes, as follows:

Net investment income	\$ 5,354,567
Reclassification of realized loss on securities paydowns	86,563
Net investment income for tax purposes	<u>\$ 5,441,130</u>

The basis for the dividend distributions is the net investment income for tax purposes, as determined above. The Fund's policy, as stated in the Prospectus, is to distribute substantially all net investment income. In order to maintain a stable level of dividends, however, the Fund may at times pay more or less than the net investment income earned in a particular year.

For the fiscal year ended December 31, 2015, the Fund had distributed \$4,639,266 for tax purposes. The undistributed net investment income (for tax purposes) at December 31, 2015 was as follows:

U.S. Municipal & Income Fund, Inc.
Notes to Financial Statements
December 31, 2015

Undistributed net investment income for tax purposes at the beginning of the year	\$ 2,628,202
Net investment income for tax purposes	5,441,130
Dividends paid to common shareholders	<u>(4,639,266)</u>
Undistributed net investment income for tax purposes at the end of the year	<u>\$ 3,430,066</u>

Undistributed net investment income for tax purposes at December 31, 2015 includes \$3,345,113 exempt from income taxes.

12. Risks and Uncertainties

The Fund is exposed to various types of risks, such as investment and market risk, municipal securities market risk, Build America Bonds risk, geographic concentration, interest rate, and credit risks, among others. This list is qualified in its entirety by reference to the more detailed information provided in the offering documentation for the securities issued by the Fund.

The Fund's investments may be adversely affected by the performance of U.S., Puerto Rico, and foreign investment securities markets, which may be influenced by a number of factors, including the level of interest rates, the rate of inflation, politics, fiscal policy, and current events. Because the Fund invests in investment securities, the Fund's net asset value may fluctuate due to market conditions.

Investing in the municipal securities market involves certain risks. The amount of public information available about the municipal securities in the Fund's portfolio is generally less than that for corporate equities or bonds, and the Fund's investment performance may therefore be more dependent on the Investment Adviser's or sub-investment adviser's analytical abilities. The secondary market for municipal securities, particularly the below investment grade bonds in which the Fund may invest, also tends to be less developed or liquid than many other securities markets, which may adversely affect the Fund's ability to sell its municipal securities at attractive prices or at prices approximating those at which the Fund currently values them. Municipal securities may contain redemption provisions, which may allow the securities to be called or redeemed prior to their stated maturity, potentially resulting in the distribution of principal and a reduction in subsequent interest distributions.

The Build America Bonds (BABs) market is smaller and less diverse than the broader municipal securities market. In addition, BABs may experience greater illiquidity than other types of municipal securities. The number of BABs available in the market is limited and there can be no assurance that BABs will be actively traded. In addition, illiquidity may negatively affect the value of the bonds. Because issuers of direct pay BABs held in the Fund's portfolio receive reimbursement from the U.S. Treasury with respect to interest payment on bonds, there is a risk that those municipal issuers will not receive timely payment from the U.S. Treasury and may remain obligated to pay the full interest due on direct pay BABs held by the Fund. Furthermore, it is possible that a municipal issuer may fail to comply with the requirements to receive the direct pay subsidy or that a future Congress may terminate the subsidy altogether. Certain aspects of the program may be subject to additional Federal or state level guidance or subsequent legislation. For example, the IRS or U.S. Treasury could impose restrictions or limitations on the payments received. Aspects of the BABs program for which the IRS and the U.S. Treasury have solicited public comment include, but have not been limited to, methods for making direct payments to issuers, the tax procedural framework for such payments, and compliance safeguards. It is not known what additional procedures will be implemented with respect to direct pay BABs, if any, nor is it known what effect such possible procedures would have on the BABs market. The Fund may invest significantly in BABs and if it

U.S. Municipal & Income Fund, Inc.
Notes to Financial Statements
December 31, 2015

does, the Fund's net asset value may be more volatile than the value of a more broadly non-diversified portfolio and may fluctuate substantially over short periods of time. Because BABs do not include certain industries or types of municipal bonds (i.e., tobacco bonds or private activity bonds), there may be less diversification than with a broader pool of municipal securities.

The Fund is exposed to certain risks resulting from the reduced geographic diversification of its portfolio. A portion of the Fund's assets are invested in securities of Puerto Rico issuers. Consequently, the Fund in general is more susceptible to economic, political, regulatory, or other factors adversely affecting issuers in Puerto Rico than an investment company that is not so concentrated in Puerto Rico issuers.

Interest rate risk is the risk that interest rates will rise so that the value of the Fund's investments will fall. Current low long-term rates present the risk that interest rates may rise and that as a result the Fund's investments will decline in value. Also, the Fund's yield will tend to lag behind changes in prevailing short-term interest rates. In addition, during periods of rising interest rates, the average life of certain types of securities may be extended because of the right of the issuer to defer payments or make slower than expected principal payments. This may lock-in a below market interest rate, increase the security's duration (the estimated period until the security is paid in full), and reduce the value of the security. This is known as extension risk, which the Fund is also subject to. Conversely, during periods of declining interest rates, the issuer of a security may exercise its option to prepay principal earlier than scheduled in order to refinance at lower interest rates, forcing the Fund to reinvest in lower yielding securities. This is known as prepayment risk, which the Fund is also subject to.

Credit risk is the risk that debt securities or preferred stock in the Fund's portfolio will decline in price or fail to make dividend or interest payments when due, because the issuer of the security experiences a decline in its financial condition. The risk is greater in the case of securities rated below investment grade, or rated in the lowest investment grade category.

The Fund may engage in repurchase agreements, which are transactions in which the Fund sells a security to a counterparty and agrees to buy it back at a specified time and price in a specified currency. Repurchase agreements involve the risk that the buyer of the securities sold by the Fund might be unable to deliver the securities when the Fund seeks to repurchase them and may be unable to replace the securities or only at a higher cost.

Because the Fund borrows under repurchase agreements based on the estimated fair value of the pledged assets, the Fund's ongoing ability to borrow under its repurchase facilities may be limited and its lenders may initiate margin calls in the event of adverse changes in the market. A decrease in market value of the pledged assets may require the Fund to post additional collateral or otherwise sell assets at a time when it may not be in the best interest of the Fund to do so.

Mortgage-backed securities in which the Fund may invest have many of the risks of traditional debt securities but, in general, differ from investments in traditional debt securities in that, among other things, principal may be prepaid at any time due to prepayments by the obligors on the underlying obligations. As a result, the Fund may receive principal repayments on these securities earlier or later than anticipated by the Fund. In the event of prepayments that are received earlier than anticipated, the Fund may be required to reinvest such prepayments at rates that are lower than the anticipated yield of the prepaid obligation. The rate of prepayments is influenced by a variety of economic, geographic, demographic, and other factors, including, among others, prevailing mortgage interest rates, local and regional economic conditions, and home owner mobility. The Fund may be subject to these risks and other risks related to such securities to a significant degree,

U.S. Municipal & Income Fund, Inc.
Notes to Financial Statements
December 31, 2015

which might cause the market value of the Fund's investments to fluctuate more than otherwise would be the case.

The Fund may also invest in illiquid securities which are securities that cannot be sold within a reasonable period of time, not to exceed seven days, in the ordinary course of business at approximately the amount at which the Fund has valued the securities. There presently are a limited number of participants in the market for certain Puerto Rico securities or other securities or assets that the Fund may own. That and other factors may cause certain securities to have periods of illiquidity. Illiquid securities may trade at a discount from comparable, more liquid investments.

There may be few or no dealers making a market in certain securities owned by the Fund, particularly with respect to securities of Puerto Rico issuers including, but not limited to, investment companies. Dealers making a market in those securities may not be willing to provide quotations on a regular basis to the Investment Adviser. It may therefore be particularly difficult to value those securities. When market quotations for securities held by the Fund are not readily available from any such independent dealers, UBSTC as the Fund's Administrator, is responsible for obtaining quotations for such securities from various sources, including UBSFSPR. As a result, the interests of UBSFSPR may conflict with those of the Fund as to the price and other terms of transactions among them.

In order to attempt to hedge various portfolio positions or to enhance its return, the Fund may invest a portion of its total assets in certain instruments which are or may be considered derivatives. Because of their increased volatility and potential leveraging effect (without being subject to the Fund's leverage limitations), derivative instruments may adversely affect the Fund. For example, investments in indexed securities, including, among other things, securities linked to an equities or commodities index and inverse floating rate securities, may subject the Fund to the risks associated with changes in the particular indices, which may include reduced or eliminated interest payments and losses of invested principal. Such investments, in effect, may also be leveraged, thereby magnifying the risk of loss.

13. Indemnifications

In the normal course of business, the Fund enters into contracts that contain a variety of indemnification clauses. The Fund's maximum exposure under these arrangements is unknown. However, the Fund has not had prior claims or losses for indemnification and expects the risk of loss to be remote.

14. Subsequent Events

Events and transactions from January 1, 2016 through March 21, 2016 (the date the financial statements were available to be issued) have been evaluated by management for subsequent events. Management has determined that there were no material events that would require adjustment to or disclosure in the Fund's financial statements through this date, except as disclosed below.

Dividends:

On February 1, 2016, the Board of Directors, acting through the Dividend Committee, declared an ordinary net investment income dividend of \$0.0417 per common share, totaling \$421,802 and payable on February 10, 2016, to common shareholders of record as of January 29, 2016.

U.S. Municipal & Income Fund, Inc.
Notes to Financial Statements
December 31, 2015

On March 1, 2016, the Board of Directors, acting through the Dividend Committee, declared an ordinary net investment income dividend of \$0.0417 per common share, totaling \$424,240 and payable on March 10, 2016, to common shareholders of record as of February 29, 2016.

(This page intentionally left blank)



Independent Auditor's Report

To the Board of Directors and Stockholders of
U.S. Municipal & Income Fund, Inc.

We have audited the accompanying financial statements of the U.S. Municipal & Income Fund, Inc. ("the Fund"), which comprise the statement of assets and liabilities, including the schedule of investments as of December 31, 2015, and the related statements of operations and of cash flows for the year then ended, of changes in net assets for each of the two years in the period then ended, and the financial highlights for each of the two years in the period then ended, and for the period from January 18, 2013 (commencement of operations) to December 31, 2013. These financial statements and financial highlights are hereafter collectively referred to as "financial statements."

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Fund's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the U.S. Municipal & Income Fund, Inc. at December 31, 2015, and the results of its operations and its cash flows for the year then ended, of its changes in net assets for each of the two years in the period then ended, and the financial highlights for each of the two years in the period then ended and for the period from January 18, 2013 (commencement of operations) to December 31, 2013, in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

San Juan, Puerto Rico
March 21, 2016

CERTIFIED PUBLIC ACCOUNTANTS
(OF PUERTO RICO)
License No. LLP-216 Expires Dec. 1, 2016
Stamp E199639 of the P.R. Society of
Certified Public Accountants has been
affixed to the file copy of this report

(This page intentionally left blank)

INVESTMENT ADVISER

UBS Asset Managers of Puerto Rico,
a division of UBS Trust Company of Puerto Rico
250 Muñoz Rivera Avenue, 10th Floor
San Juan, Puerto Rico 00918

ADMINISTRATOR, TRANSFER AGENT, AND CUSTODIAN

UBS Trust Company of Puerto Rico
250 Muñoz Rivera Avenue, 10th Floor
San Juan, Puerto Rico 00918

U.S. LEGAL COUNSEL

Sidley, Austin, Brown & Wood, LLP
787 Seventh Avenue
New York, New York 10019

PUERTO RICO LEGAL COUNSEL

Adsuar, Muñiz, Goyco, Seda & Pérez-Ochoa, PSC
208 Ponce de León Ave., Suite 1600
San Juan, Puerto Rico 00918

INDEPENDENT AUDITORS

Pricewaterhouse Coopers, LLP
Oriental Tower, 9th Floor
254 Muñoz Rivera Avenue
San Juan, Puerto Rico 00918

DIRECTORS AND OFFICERS

Carlos V. Ubiñas
Director, Chairman of the Board and President

Miguel A. Ferrer¹
Director

Mario S. Belaval
Director

Agustín Cabrer-Roig
Director

Gabriel Dolagaray Balado
Director

Carlos Nido
Director

Luis M. Pellot-González
Director

Vicente J. León
Director

Clotilde Pérez
Director

José J. Villamil
Director

Leslie Highley, Jr.
Senior Vice President

Ricardo Ramos²
First Vice President, Treasurer and Assistant Secretary

William Rivera
First Vice President and Treasurer

Javier Rodríguez
Assistant Vice President and Assistant Treasurer

Liana Loyola, Esq.
Secretary

Remember that:

- Mutual Fund's units are not bank deposits or FDIC insured.
- Mutual Fund's units are not obligations of or guaranteed by UBS Financial Services Incorporated of Puerto Rico or any of its affiliates.
- Mutual Fund's units are subject to investment risks, including possible loss of the principal amount invested.

¹ Mr. Ferrer resigned from his position as Director effective on May 28, 2015.

² Mr. Ramos resigned from his position as First Vice President, Treasurer and Assistant Secretary effective on May 31, 2015.

**U.S. MUNICIPAL & INCOME
FUND, INC.**