

DUKE REALTY CORP
Form 11-K
June 28, 2017

As filed with the Securities and Exchange Commission on June 28, 2017

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 11-K

FOR ANNUAL REPORTS OF EMPLOYEE STOCK REPURCHASE
SAVINGS AND SIMILAR PLANS PURSUANT TO SECTION 15(D) OF THE
SECURITIES EXCHANGE ACT OF 1934

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2016

OR

TRANSITION REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number: 1-9044

A. Full title of the plan and the address of the plan, if different from that of the issuer named below:

DUKE REALTY 401(k) PLAN

B. Name of issuer of the securities held pursuant to the plan and the address of its principal executive office:

DUKE REALTY CORPORATION
600 East 96th Street, SUITE 100
INDIANAPOLIS, INDIANA 46240

DUKE REALTY 401(k) PLAN
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Report of Independent Registered Public Accounting Firm
The Associate Benefits Committee
Duke Realty 401(k) Plan:

We have audited the accompanying statements of assets available for plan benefits of the Duke Realty 401(k) Plan (the Plan) as of December 31, 2016 and 2015, and the related statements of changes in assets available for plan benefits for the years ended December 31, 2016 and 2015. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets available for benefits of the Plan as of December 31, 2016 and 2015, and the changes in assets available for benefits for the years ended December 31, 2016 and 2015, in conformity with U.S. generally accepted accounting principles.

The supplemental information in the accompanying Schedule H, Line 4i - Schedule of Assets (held at end of year) as of December 31, 2016 has been subjected to audit procedures performed in conjunction with the audit of the Plan's 2016 financial statements. The supplemental information is presented for the purpose of additional analysis and is not a required part of the financial statements but includes supplemental information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. The supplemental information is the responsibility of the Plan's management. Our audit procedures included determining whether the supplemental information reconciles to the financial statements or the underlying accounting and other records, as applicable, and performing procedures to test the completeness and accuracy of the information presented in the supplemental information. In forming our opinion on the supplemental information, we evaluated whether the supplemental information, including its form and content, is presented in conformity with the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. In our opinion, the supplemental information in the accompanying Schedule H, Line 4i - Schedule of Assets (held at end of year) as of December 31, 2016 is fairly stated in all material respects in relation to the 2016 financial statements as a whole.

/s/ KPMG LLP
Indianapolis, Indiana
June 28, 2017

DUKE REALTY 401(k) PLAN

Statements of Assets Available for Plan Benefits

December 31, 2016 and 2015

	2016	2015
Assets held by trustee:		
Investments, at fair value:		
Common and preferred stock	\$ 34,832,818	\$ 32,201,422
Corporate bonds	11,691	21,248
Money market funds	8,306,066	5,722,740
Mutual funds	89,017,595	85,568,026
Total investments	132,168,170	123,513,436
Receivables:		
Employee contribution	99,172	89,562
Employer discretionary contribution	876,724	940,371
Employer match contribution	—	121,910
Notes receivable from participants	1,383,873	1,920,974
Unsettled trades	93,029	38,241
Total receivables	2,452,798	3,111,058
Assets available for plan benefits	\$ 134,620,968	\$ 126,624,494

See accompanying notes to financial statements.

DUKE REALTY 401(k) PLAN

Statements of Changes in Assets Available for Plan Benefits

Years ended December 31, 2016 and 2015

	2016	2015
Investment income:		
Interest and dividends	\$4,152,021	\$5,793,026
Net appreciation (depreciation) in fair value of investments	11,470,466	(2,077,627)
Total investment income	15,622,487	3,715,399
Interest income on notes receivable from participants	68,499	91,944
Contributions:		
Employer discretionary	877,538	940,371
Employer matching of salary deferral	1,506,613	1,853,584
Participants' salary deferral	4,742,765	5,576,801
Participants' rollover	207,484	227,263
Total contributions	7,334,400	8,598,019
Total additions	23,025,386	12,405,362
Deductions from assets attributed to:		
Administrative fees	43,983	48,730
Benefits paid to participants	14,861,070	17,402,248
Deemed distributions of defaulted participant loans	123,859	—
Total deductions	15,028,912	17,450,978
Net increase (decrease)	7,996,474	(5,045,616)

Assets available for plan benefits:

Beginning of year	126,624,494	131,670,110
End of year	\$134,620,968	\$126,624,494

See accompanying notes to financial statements.

DUKE REALTY 401(k) PLAN

Notes to Financial Statements

December 31, 2016 and 2015

(1) Description of Plan

The following description of the Duke Realty 401(k) Plan (the Plan) provides only general information. Participants should refer to the Plan document for a more complete description of the Plan's provisions.

(a) General

The Plan is a defined contribution plan sponsored by Duke Realty Corporation (the Employer) covering all employees who are age 18 years or older. Employees are eligible to participate in the Plan on the first day of the calendar month following their hire date. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA). The Associate Benefits Committee is responsible for oversight of the Plan, as appointed by the Executive Compensation Committee of the Board of Directors of Duke Realty Corporation. The Associate Benefits Committee determines the appropriateness of the Plan's investment offerings, monitors investment performance and reports to the Executive Compensation Committee.

(b) Contributions

Eligible participants may elect to defer a percentage of their compensation to be contributed to their Employee Deferral Account. The Plan stipulates the minimum and maximum percentage that may be contributed, not to be less than 1% and not to exceed 75% of a participant's compensation for each plan year, subject to limitations imposed by the Internal Revenue Service. The Plan currently offers each participant investment options including a number of mutual funds, common stock of the Employer, a money market fund, and a self-directed fund, which allows participants to direct their contributions into investments of their choice. The Employer matches 50% of participant contributions annually up to 6% of total compensation. The Employer matching contribution is limited to a participant's first \$265,000 of compensation. Effective June 2, 2008, this contribution is invested in the common stock of the Employer unless the participant elected to have the Employer matching contribution invested in other investment options. The Employer may also make discretionary contributions to the Plan to be invested in the common stock of the Employer. Participants are able to transfer all Employer contributions to an investment option of their choice. The Employer declared a discretionary contribution of \$876,724 in 2016 (paid in 2017) and \$940,371 in 2015 (paid in 2016).

(c) Participant Accounts

Each participant's account is credited (debited) with the participant's contribution and Employer matching contribution, as well as allocations of the Employer's discretionary contribution (when applicable), and Plan earnings (losses). Allocations are based on participant earnings or account balances, as defined. The benefit to which a participant is entitled is the benefit that can be provided from the participant's vested account.

(d) Vesting

Participants are immediately vested in elective salary reduction contributions and the actual earnings thereon. Vesting in discretionary contributions, matching contributions, and the earnings thereon is based upon the years of service of the participant. A year of service means a plan year in which the participant completes at least 1,000 hours of service. A participant becomes 20% vested after one year of service and vests an additional 20% for each year of service thereafter and is 100% vested after five years of service. Participants who terminate employment due to retirement after age 59½, by death, or by total or permanent disability are automatically considered fully vested.

(e) Notes Receivable From Participants

Participants may borrow from their accounts a minimum of \$1,000 up to a maximum equal to the lesser of \$50,000 or 50% of their vested account balance. Loan repayment periods may not exceed five years except for the loans used to acquire a principal residence, in which case the repayment period may not exceed 10 years. The loans are secured by the balance in the participant's account and bear interest at the prime rate plus 1%, and range from 4.25% to 9.25% at December 31, 2016 and have maturities from January 2017 through April 2025. Principal and interest is paid ratably through payroll deductions.

(f) Benefits

Upon retirement, death, disability or other termination of employment, a participant's vested account balance is to be distributed in a single lump-sum payment, and/or they can receive Employer stock for the portion of their vested account balance that was in Employer stock within 90 days of written request.

(g) Forfeitures

Participants who terminate employment forfeit any non-vested portion of their account. Forfeitures are used to reduce the Employer matching contributions. In 2016 and 2015, Employer contributions were reduced by \$102,000 and \$41,000, respectively, from forfeited non-vested accounts. As of December 31, 2016 and 2015, there are \$49,974 and \$42,807, respectively, of additional forfeitures that have not yet been used to reduce Employer matching contributions.

(2) Summary of Significant Accounting Policies

(a) Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and changes therein, and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

(b) Basis of Accounting

The Plan's financial statements are prepared on the accrual basis of accounting.

(c) Investment Valuation and Income Recognition

Investments are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Plan's Associate Benefit Committee determines the Plan's valuation policy utilizing information provided by the investment advisers and custodian. See note 6 for discussion of fair value measurements.

Net appreciation (depreciation) in fair value of investments is reflected in the statements of changes in assets available for plan benefits and includes realized gains and losses on investments bought and sold and the change in appreciation (depreciation) from one period to the next. Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Acquisition costs are included in the cost of investments purchased, and sales are recorded net of selling expenses.

(d) Benefit Payments

Benefits are recorded when paid.

(e) Administrative Expenses

In 2016 and 2015, portfolio advisory service fees, service withdrawal fees, participant loan origination fees, participant loan maintenance fees, employer stock trustee fees, and employer stock sale/purchase fees were charged to participant's accounts as incurred and all remaining usual and reasonable expenses of the Plan were paid by the Company.

(f) Notes Receivable From Participants

Notes receivable from participants are measured at their unpaid principal balance plus any accrued but unpaid interest. Delinquent notes receivable from participants are recorded as a distribution based upon the terms of the plan document.

(g) Recently Adopted Accounting Pronouncements

In July 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2015-12, Plan Accounting: Defined Benefit Pension Plans (Topic 960), Defined Contribution Pension Plans (Topic 962), Health and Welfare Benefit Plans (Topic 965): (Part I) Fully Benefit-Responsive Investment Contracts, (Part II) Plan Investment Disclosures, (Part III) Measurement Date Practical Expedient. Part I eliminates the requirements to measure the fair value of fully benefit-responsive investment contracts and provide certain disclosures. Contract value is the only required measure for fully benefit-responsive investment contracts. Part II eliminates the requirements to disclose individual investments that represent 5 percent or more of net assets available for benefits and the net appreciation or depreciation in fair value of investments by general type. Part II also simplifies the level of disaggregation of investments that are measured using fair value. Plans will continue to disaggregate investments that are measured using fair value by general type; however, plans are no longer required to also disaggregate investments by nature, characteristics and risks. Further, the disclosure of information about fair value measurements shall be provided by general type of plan asset. Part III permits employee benefit plans to elect a practical expedient of using, as an alternative measurement date for plan investments, the month-end date closest to the plan's fiscal year-end when the fiscal year-end does not coincide with a month-end. The ASU is effective for fiscal years beginning after December 15, 2015, with early adoption permitted. Part I and Part III are not applicable to the Plan. Part II was adopted in 2016 and did not have a material impact on the financial statements.

In May 2015, the FASB issued ASU No. 2015-07, Fair Value Measurement (Topic 820), Disclosures for Investment in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent). ASU 2015-07 removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. It also removes the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share practical expedient. The requirements of the standard are effective for reporting periods in fiscal years that begin after December 15, 2015, with early adoption permitted. ASU 2015-07 is to be applied retrospectively. The Plan adopted this standard in 2016 and its adoption did not have a material impact on its financial statements and related disclosures.

(3) Plan Termination

Although it has not expressed any intent to do so, the Employer has the right under the Plan to discontinue its contributions at any time and to terminate the Plan subject to the provisions of ERISA. In the event of Plan termination by the Employer, participants will become 100% vested in their accounts.

(4) Tax Status

The Internal Revenue Service has determined and informed the Company by a letter dated January 29, 2016 that the Plan and related trust are designed in accordance with applicable sections of the Internal Revenue Code (IRC). Accounting principles generally accepted in the United States of America require plan management to evaluate tax positions taken by the Plan. The financial statement effects are recognized when the Plan has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service. The Plan administrator has analyzed the tax positions taken by the Plan and has concluded that as of December 31, 2016, there are no uncertain tax positions taken. The Plan is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The Plan administrator believes the Plan is no longer subject to income tax examinations for years prior to 2012.

(5) Fair Value Measurements

FASB Accounting Standards Codification (ASC) 820, Fair Value Measurements and Disclosures, provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows: Level 1 – Unadjusted quoted prices accessible in active markets for identical assets or liabilities at the measurement date.

Level 2 – Unadjusted quoted prices for similar assets or liabilities in active markets or inputs (other than quoted prices) that are observable or that are derived principally from or corroborated by observable market data through correlation or other means.

Level 3 – Prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. Inputs reflect management's best estimate about the assumptions market participants would use at the measurement date in pricing the asset or liability. Consideration is given to the risk inherent in both the method of valuation and the valuation inputs.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets at fair value. There have been no changes in the methodologies used at December 31, 2016 and 2015.

Money market funds, equity securities, and corporate bonds: Valued at the closing price reported on the active market on which the individual investments are traded.

Mutual Funds: Valued at closing price reported on the active market on which the individual funds are traded. Mutual funds held by the Plan are open ended mutual funds that are registered with the Securities & Exchange Commission (SEC). These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds held by the Plan are deemed actively traded. The Plan can redeem these investments daily, and there are currently no redemption restrictions on these investments.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

As of December 31, 2016 and 2015, the Plan's investments measured at fair value consisted of the following instruments and classifications within the fair value hierarchy:

	Fair Value Measurements Using Input Type as of December 31.	
	2016	2015
Level 1:		
Duke Realty Stock	\$31,965,756	\$29,879,054
Money Market Funds	7,642,931	4,993,670
Mutual Funds	82,844,438	81,234,277
Self-directed brokerage funds	9,715,045	7,406,435
	\$132,168,170	\$123,513,436
Level 2:	\$—	\$—
Level 3:	\$—	\$—
Total	\$132,168,170	\$123,513,436

(6) Party-in-Interest Transactions

The following investment funds are sponsored by Fidelity Investments, the Trustee: Fidelity Retirement Money Market Portfolio, Fidelity Balanced Fund, Fidelity Freedom Funds, Fidelity Freedom Income Fund, Fidelity Inflation Protected Bond Fund, Fidelity Spartan International Index, and Fidelity Spartan Total Market Index Fund Institutional. Participant loans are made with individual participants of the Plan, and investments are made in the common stock of the Employer. Therefore, transactions in these investments are considered to be party-in-interest transactions.

(7) Concentrations

At December 31, 2016 and 2015, approximately 24% and 24%, respectively, of assets available for plan benefits are invested in the Employer's common stock.

(8) Risks and Uncertainties

The Plan offers various investment options. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the value of investment securities will occur in the near term and that such changes could materially affect participants' account balances and the amounts reported in the statements of assets available for plan benefits.

(9) Reconciliation of Financial Statements to Form 5500

The following is a reconciliation of assets available for plan benefits according to the financial statements as of December 31, 2016 and 2015, to the Form 5500:

	2016	2015
Assets available for plan benefits per the financial statements	\$134,620,968	\$126,624,494
Certain deemed distributions of participant loans	(86,036)	(156,993)
	\$134,534,932	\$126,467,501

The following is a reconciliation of the net increase (decrease) per the financial statements and the net income per the Form 5500 for the years ended December 31, 2016 and 2015:

	2016	2015
Change in certain deemed distributions of participant loans	\$(6,482)	\$(9,500)
Net increase (decrease) per the financial statements	7,996,474	(5,045,616)
	\$7,989,992	\$(5,055,116)

Certain deemed distributions represent active participants' loan balances that were in default and have been taxed to the participant (deemed loans). Amounts associated with deemed loans are included in the asset balance reported in the financial statements at December 31, 2016 and 2015, but are removed from the assets reported on the Form 5500.

DUKE REALTY 401(k) PLAN

Schedule H, Line 4i – Schedule of Assets (Held at End of Year)

December 31, 2016

Party-in-interest	Identity	Description of investment	Current value
	Common Stock:		
*	Duke Realty Corporation	Common stock	\$31,965,756
	Money market funds:		
*	Fidelity	Fidelity Retirement Money Market Portfolio	7,642,931
	Mutual funds:		
	American Funds	American Funds Euro Pacific Growth Fund	5,741,965
*	Fidelity	Fidelity Balanced K Fund	4,493,256
*	Fidelity	Fidelity Freedom K 2005 Fund	132,984
*	Fidelity	Fidelity Freedom K 2010 Fund	101,720
*	Fidelity	Fidelity Freedom K 2015 Fund	271,420
*	Fidelity	Fidelity Freedom K 2020 Fund	2,444,423
*	Fidelity	Fidelity Freedom K 2025 Fund	2,307,509
*	Fidelity	Fidelity Freedom K 2030 Fund	3,396,809
*	Fidelity	Fidelity Freedom K 2035 Fund	2,934,280
*	Fidelity	Fidelity Freedom K 2040 Fund	1,677,455
*	Fidelity	Fidelity Freedom K 2045 Fund	1,207,427
*	Fidelity	Fidelity Freedom K 2050 Fund	999,079
*	Fidelity	Fidelity Freedom K 2055 Fund	230,739
*	Fidelity	Fidelity Freedom K 2060 Fund	28,599
*	Fidelity	Fidelity Freedom K Income Fund	454,091

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	Fidelity		
*	Fidelity	Inflation-Protected Bond Fund	2,395,199
*	Fidelity	Fidelity Spartan International Index	1,022,497
*	Fidelity	Fidelity Spartan Total Market Index Fund Institutional	8,000,452
	Invesco	Invesco Growth and Income Fund - R6	7,689,100
	Janus	Janus Small Cap Core Select Class	4,988,988
	John Hancock	John Hancock Disciplined Value Mid Cap Class I	7,514,484
	Prudential	Prudential Total Return Bond Fund	8,354,219
	T. Rowe Price	T. Rowe Price Blue Chip Growth Fund	13,314,583
	T. Rowe Price	T. Rowe Price Mid-Cap Growth Fund	3,143,160
			\$82,844,438
	Participant directed brokerage account		9,715,045
*	Participant loans (interest rates ranging from 4.25% to 9.25% and maturities from January 2017 through April 2025.)		1,383,873
	Total		\$133,552,043

* Denotes exempt party-in-interest.
 Historical cost information is not required in Schedule H, Line 4i - Schedule of Assets (Held at End of Year) for participant-directed investment funds.
 See accompanying report of independent registered public accounting firm.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the trustees (or other persons who administer the employee benefit plan) have duly caused this annual report to be signed on its behalf by the undersigned hereunto duly authorized.

DUKE REALTY 401(k) PLAN

Date:

June
28, /s/ Denise K. Dank

2017

Denise K. Dank
Chief Human Resources Officer
Chairman, Associate Benefits Committee