

HERITAGE FINANCIAL CORP /WA/
Form 11-K
June 26, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 11-K

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

For the fiscal year ended December 31, 2017

OR

TRANSITION REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission File Number 000-29480

HERITAGE FINANCIAL CORPORATION 401(k) PROFIT SHARING PLAN AND TRUST
(Full title of the plan)

HERITAGE FINANCIAL CORPORATION
201 5TH AVENUE S.W.
OLYMPIA, WASHINGTON 98501-1114

(Name of issuer of the securities held pursuant to the plan and the address of its principal executive office)

REQUIRED INFORMATION

The Heritage Financial Corporation 401(k) Profit Sharing Plan and Trust (the Plan) is subject to the Employee Retirement Income Security Act of 1974, as amended ("ERISA") and elects to file Plan financial statements and schedules prepared in accordance with the financial reporting requirements of ERISA.

Furnished herewith are the financial statements and schedules of the Plan as of December 31, 2017 and 2016 and for the year ended December 31, 2017.

FINANCIAL STATEMENTS AND EXHIBITS

(a) Financial statements

Statements of Net Assets Available for Benefits as of December 31, 2017 and 2016

Statement of Changes in Net Assets Available for Benefits for the year ended December 31, 2017

Notes to Financial Statements

Form 5500, Schedule H, Line 4(i) – Schedule of Assets (Held at End of Year)

(b) Exhibits

The following exhibit is being furnished herewith and this list shall constitute the exhibit index:

23.1 Consent of Independent Registered Public Accounting Firm

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HERITAGE FINANCIAL CORPORATION
401(k) PROFIT SHARING PLAN AND TRUST
Financial Statements and Supplemental Schedule
December 31, 2017 and 2016
(Report of Independent Registered Public Accounting Firm)

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HERITAGE FINANCIAL CORPORATION
401(k) PROFIT SHARING PLAN AND TRUST

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| Other schedules required by 29 CFR Section 2520.103-10 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974, as amended, have been omitted as they are not applicable. | |

Report of Independent Registered Public Accounting Firm

Plan Participants and Advisory Committee of the Heritage Financial Corporation 401(k) Profit Sharing Plan and Trust
Olympia, Washington

Opinion on the Financial Statements

We have audited the accompanying statements of net assets available for benefits of Heritage Financial Corporation 401(k) Profit Sharing Plan and Trust (the "Plan") as of December 31, 2017 and 2016, the related statement of changes in net assets available for benefits for the year ended December 31, 2017, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the net assets available for benefits of the Plan as of December 31, 2017 and 2016, and the changes in net assets available for benefits for the year ended December 31, 2017, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on the Plan's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Plan in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Plan is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting in accordance with the standards of the PCAOB. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control over financial reporting. Accordingly, we express no such opinion in accordance with the standards of the PCAOB.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Supplemental Information

The supplemental Schedule H, Line 4(i) - Schedule of Assets (Held at End of Year) as of December 31, 2017 has been subjected to audit procedures performed in conjunction with the audit of Heritage Financial Corporation 401(k) Profit Sharing Plan and Trust's financial statements. The supplemental schedule is the responsibility of the Plan's management. Our audit procedures included determining whether the information presented in the supplemental schedule 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 schedule. In forming our opinion on the supplemental schedule, we evaluated whether the supplemental schedule, 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 schedule is fairly stated in all material respects in relation to the financial statements as a whole.

/s/ Crowe Horwath LLP

We have served as the Plan's auditor since 2012.

Oak Brook, IL

June 26, 2018

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HERITAGE FINANCIAL CORPORATION
 401(k) PROFIT SHARING PLAN AND TRUST
 Statements of Net Assets Available for Benefits
 December 31, 2017 and 2016

| | December 31, 2017 | December 31, 2016 |
|---|----------------------|----------------------|
| Assets: | | |
| Investments at fair value: | | |
| Mutual funds | \$ 43,851,035 | \$ 36,318,206 |
| Heritage Financial Corporation common stock | 9,128,011 | 8,141,584 |
| Stable value collective trust fund | 4,803,621 | 4,516,754 |
| Cash and cash equivalents | 318,996 | 319,077 |
| Total investments at fair value | 58,101,663 | 49,295,621 |
| Non-interest bearing cash | 186 | 538,257 |
| Contributions receivable from employer | 41,748 | — |
| Contributions receivable from plan participants | 126,929 | — |
| Notes receivable from participants | 826,950 | 695,490 |
| Total assets | 59,097,476 | 50,529,368 |
| Liabilities: | | |
| Accounts payable and other | 21,904 | 11,439 |
| Total liabilities | 21,904 | 11,439 |
| Net assets available for benefits | \$ 59,075,572 | \$ 50,517,929 |
| See accompanying Notes to Financial Statements. | | |

HERITAGE FINANCIAL CORPORATION
 401(k) PROFIT SHARING PLAN AND TRUST
 Statement of Changes in Net Assets Available for Benefits
 Year Ended December 31, 2017

| | Year Ended December 31, 2017 |
|---|------------------------------------|
| Investment income: | |
| Net appreciation in fair value of investments | \$ 7,002,606 |
| Dividends | 1,570,271 |
| Other | 74,641 |
| Net investment income | 8,647,518 |
| Interest income on notes receivable from participants | 27,951 |
| Contributions: | |
| Participant salary deferrals | 3,378,597 |
| Employer | 1,112,986 |
| Participant rollovers | 370,984 |
| Total contributions | 4,862,567 |
| Total additions | 13,538,036 |
| Deductions: | |
| Benefits paid to participants | 4,781,939 |
| Administrative expenses | 198,454 |
| Total deductions | 4,980,393 |
| Net increase in net assets | 8,557,643 |
| Net assets available for benefits, beginning of year | 50,517,929 |
| Net assets available for benefits, end of year | \$ 59,075,572 |
| See accompanying Notes to Financial Statements. | |

HERITAGE FINANCIAL CORPORATION
401(k) PROFIT SHARING PLAN AND TRUST
Notes to Financial Statements
December 31, 2017 and 2016

(1) Description of Plan

The following description of the Heritage Financial Corporation 401(k) Profit Sharing Plan and Trust (the "Plan") provides only general information. Participants should refer to the Plan agreement for a more complete description of the Plan's provisions.

(a) General

Heritage Financial Corporation (the "Company") is a bank-holding company headquartered in Olympia, Washington, and is considered the Plan Sponsor. The Plan is administered by the Advisory Committee, which consists of certain officers and employees of the Company.

The Plan is a qualified defined contribution plan established by the Company under the provisions of Section 401(a), Section 401(k) and Section 4975(e)(7) of the Internal Revenue Code ("IRC") with salary reduction and employee stock ownership features for the benefit of eligible employees of the Company. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 ("ERISA"), as amended.

(b) Eligibility

Employees are eligible to participate in the Plan on the first of the month coincident with or following thirty days of service.

(c) Contributions

Subject to certain Internal Revenue Service ("IRS") limitations discussed below, participants may make elective pre-tax 401(k) and after-tax Roth 401(k) contributions up to 100% of their eligible compensation. The IRS limitations include a dollar limitation of \$18,000 for 2017 and certain discrimination testing limitations. Additionally, participants over the age of 50 at Plan year end may make catch-up contributions up to the applicable dollar limitation of \$6,000 for 2017.

Participants may also contribute rollovers into the Plan, which represent distributions from other qualified plans, if certain conditions are met. The Plan permits In-Plan Conversion features to convert amounts within the Plan to Roth Accounts either as In-Plan Roth Rollovers or In-Plan Roth Transfers.

The Company makes a matching contribution to participant accounts equal to 50% of the participant's contribution, up to 6% of the participant's eligible compensation. Matching contributions are considered part of the employer contributions, and are subject to discrimination limitations.

The Company's profit sharing contribution is discretionary. The Company did not make a discretionary contribution for the plan year 2017. Discretionary profit sharing contributions are considered part of the employer contributions.

The following provisions apply to employer contributions:

Participants are eligible for matching contributions upon participation in the Plan.

Matching and discretionary profit sharing contributions to the Plan are invested as directed by the employee.

Participants, who are not credited with at least 1,000 hours of service during the Plan year or are not employed on the last working day of a Plan year, are not eligible for an allocation of discretionary profit sharing contributions for that year except in the event of the participant's death, disability or retirement.

(d) Participants' Accounts

Each participant's account is credited with the (a) the participant's contribution, (b) employer contributions, and (c) allocations of Plan earnings net of expenses, as determined by the Plan document. The benefit to which a participant is entitled is the benefit that can be provided from the participant's vested account. Participant accounts are valued daily.

(e) Vesting

Participants are always 100% vested in all contributions and earnings thereon.

(f) Investment Options

Participants direct the investment of their contributions and the Company's matching contributions in 1% increments into various investment options offered by the Plan. The Plan currently offers investments in mutual funds, a stable value collective trust fund, and the Company's stock fund. Participants also have the option to invest in four different managed portfolio strategies. When a new participant is added to the Plan, any contribution will be allocated to the default investment option if the participant has inadvertently failed to provide investment election options.

Participants may change their investment elections and reallocate their investments on a daily basis (including with respect to Company stock). Contributions may be temporarily held as cash balances pending the execution of the investment according to the participant's direction.

(g) Payment of Benefits

No distributions from the Plan may be made until a participant retires, dies (in which case, payment shall be made to his or her beneficiary or, if none, to his or her legal representatives), becomes disabled or otherwise terminates employment with the Company. Participants aged 59 1/2 or older are eligible for in-service distributions. However, the participant has the right to defer receipt of their Plan accounts until he or she attains their normal retirement age (age 65).

Distributions are made in cash, Company stock, or both, at the election of the participant, subject to the terms of the Plan.

Benefit distributions are based on the participant's vested account balance and may be distributed in a lump sum. If a participant's vested account balances exceed \$1,000, a participant may elect to have the vested accounts distributed in installments over a period of not more than the participant's life expectancy. Participants with account balances prior to 2008 may elect distributions through the purchase of an annuity. In the case of a married participant, certain accounts from a previously merged plan must be distributed in the form of a joint and survivor annuity with the participant's spouse as the joint annuitant, unless waived by the participant and consented to by the participant's spouse.

Under certain conditions, participants, while still employed by the Company, are permitted to withdraw in a single sum, the employee contribution portion of their account balance on account of hardship as defined in IRS regulations. If a hardship withdrawal is made, a participant's right to make elective contributions to the Plan will be suspended for six months after the receipt of the hardship withdrawal. This will affect the participant's right to receive matching contributions, but not profit sharing contributions. In addition, participants, while still employed by the Company, are permitted to withdraw all or a portion of their employee account balance after age 59 1/2. Rollover accounts may be withdrawn, all or part, once during each Plan year regardless of the participant's age.

The Plan provides for automatic rollovers for terminated participants with balances under \$5,000 into an Individual Retirement Account ("IRA") with Millennium Trust. Affected participants are notified of the change and provided an opportunity to distribute or move their funds. Participants are charged \$35 initially and a \$35 annual fee to be rolled into and maintain a balance in this IRA.

(h) Voting and Dividend Rights

No participant shall have any voting or dividend rights or other rights of a stockholder prior to the time that shares are allocated to the participant.

Each participant is entitled to exercise voting rights attributable to the shares of Company stock allocated to his or her account and is notified by the trustee prior to the time that such rights are to be exercised.

(i) Forfeitures

Forfeitures may be used to pay reasonable and permitted administrative expenses or to reduce the Company's employer contribution obligation. Forfeitures were not used during 2017. Forfeitures available to be used to reduce future employer contributions at December 31, 2017 and 2016 were \$7,908 and \$7,305, respectively.

(j) Notes Receivable from Participants

Participants may borrow, upon written application, any amount provided that the aggregate amount of all outstanding notes from the participant to the Plan, taking into account notes payable to any other qualified plan maintained by the employer, shall not exceed the lesser of \$50,000 or 50% of the participant's vested account balance. Participants can request loans for any purpose and the Plan Trustees are no longer responsible for approving such loans. Note terms shall not exceed five years, except for the purchase of a primary residence. The notes are collateralized by the balance in the participant's account and bear interest at a rate equal to the then current prime rate. Loans which were transferred into the Plan retained the repayment terms and interest rates in effect at the time of transfer. Principal and interest is paid ratably through semi-monthly payroll deductions.

(k) Administrative Expenses and Revenue Sharing Credits

Administrative expenses including trust, recordkeeping, audit and investment fees are paid by the Plan. Certain administrative expenses incurred by the Plan are paid directly by the Company and are excluded from these financial statements. Investment-related expenses are included in the net appreciation of fair value of investments.

The Plan earns revenue sharing credits from certain mutual funds based on the invested balances. The credits may be used to pay reasonable and permitted administrative expenses. Credits used to pay Plan expenses during 2017 were \$74,209.

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting

The accompanying financial statements have been prepared under the accrual method of accounting. Investments held by a defined contribution plan are required to be reported at fair value.

(b) Use of Estimates

The preparation of financial statements in conformity 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, liabilities and changes therein, and the disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

(c) Risks and Uncertainties

The Plan allows participants to direct contributions into various mutual funds, a stable value collective trust fund, and Company stock. The mutual funds are all registered investment companies. The underlying investment securities of these funds and the Company stock are exposed to various risks, including but not limited to interest rate, market, liquidity and credit risk. Due to the level of risk associated with certain underlying investment securities, the sensitivity of certain fair value estimates to changes in valuation assumptions, and the level of uncertainty related to changes in the value of the funds, it is likely 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 statement of net assets available for benefits and the statement of changes in net assets available for benefits. Participants should refer to Heritage Financial Corporation's annual and quarterly financial statements filed with the Securities and Exchange Commission (Form 10K and 10Q) regarding risks associated with Company stock.

(d) Investment Valuation and Income Recognition

The Plan's 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 Trustees determine the Plan's valuation policies utilizing information provided by the investment advisers, custodians, and insurance company. See Note (3) Fair Value Measurements for discussion of fair value measurements.

Purchases and sales of securities are recorded on a trade-date basis. Dividend income is accrued on the ex-dividend date. Interest income is recorded on the accrual basis. Realized gains and losses from security transactions are reported on the moving average method. Net appreciation (depreciation) in fair value of investments represents the change in fair value from one period to the next and realized gains and losses.

(e) Payment of Benefits

Benefits are recorded when paid. There were no assets allocated to withdrawing participants at December 31, 2017 and \$323,422 was allocated to withdrawing participants at December 31, 2016.

(f) Notes and Receivable from Participants

Notes receivable from participants are stated at the outstanding balance of the loan plus accrued interest. Interest income is recorded on the accrual basis. Related fees are recorded as administrative expenses and are expensed when they are incurred. All notes were current and the Plan recorded no allowance for loan losses related to the outstanding notes receivable from participants as of December 31, 2017 and 2016.

(g) Excess Contributions Payable

Amounts payable to participants for contributions in excess of amounts allowed by the IRS are recorded as a liability with a corresponding reduction to contributions. The Plan distributes the excess contributions to the applicable participants before March 15th of the subsequent year. There were \$4,664 excess contributions as of December 31, 2017. There were no excess contributions as of December 31, 2016.

(3) Fair Value Measurements

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (exit price) in principal or most advantageous market in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2: Observable inputs other than Level 1 quoted prices, such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; or inputs other than quoted prices that are observable or corroborated by observable market data. Level 2 quoted prices are obtained from independent third-party brokers or dealers, including prices derived from model-based valuation techniques for which the significant assumptions are observable in the market or corroborated by observable market data.

Level 3: Unobservable inputs that are supported by little or no market activity. These inputs require significant management judgment and reflect the Plan's estimation of assumptions that market participants would use in pricing the asset or liability.

The asset 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 maximize the use of observable inputs and minimize the use of unobservable inputs.

The following descriptions of the valuation methods and assumptions used by the Plan to estimate the fair values of investments apply to investments held directly by the Plan. There have been no changes in the methodologies used at December 31, 2017 and 2016.

Heritage Financial Corporation common stock: Valued based on its closing price as quoted on the NASDAQ National Market System. The Plan Sponsor common stock is determined to be a Level 1 investment.

Mutual funds: Valued at the daily closing price as reported by the fund. Mutual funds held by the Plan are open-end mutual funds that are registered with the United States Securities and Exchange Commission. 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 to be actively traded. These are determined to be Level 1 investments.

Cash and cash equivalents: Valued based on quoted prices in active markets and determined to be a Level 1 investment.

Collective trust fund: As the stable value collective trust fund is composed primarily of fully benefit-responsive investment contracts, it is valued at the NAV of units of the bank collective trust. The NAV is used as a practical expedient to estimate fair value. This practical expedient would not be used if it is determined to be probable that the fund will sell the investment for an amount different from the reported net asset value. Participant transactions (purchases and sales) may occur daily. If the Plan initiates a full redemption of the collective trust, the issuer reserves the right to require 12 months' notification in order to ensure that securities liquidations will be carried out in an orderly business manner. The stable value collective trust fund seeks to provide investors with a moderate level of stable income without principal volatility.

The fair value of other financial instruments such as employer contributions receivable approximate their carrying value.

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

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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. The following tables sets forth by level, within the fair value hierarchy, the Plan's assets at fair value on a recurring basis as of December 31, 2017 and 2016:

| | Investments at Fair Value as of December 31, 2017 | | | |
|---|--|---------|---------|---------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Mutual funds | \$43,851,035 | \$ — | \$ — | —\$43,851,035 |
| Heritage Financial Corporation common stock | 9,128,011 | — | — | 9,128,011 |
| Cash and cash equivalents | 318,996 | — | — | 318,996 |
| Total investments in the fair value hierarchy | 53,298,042 | — | — | 53,298,042 |
| Collective trust fund ⁽¹⁾ | — | — | — | 4,803,621 |
| Total investments at fair value | \$53,298,042 | \$ — | \$ — | —\$58,101,663 |

| | Investments at Fair Value as of December 31, 2016 | | | |
|---|--|---------|---------|---------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Mutual funds | \$36,318,206 | \$ — | \$ — | —\$36,318,206 |
| Heritage Financial Corporation common stock | 8,141,584 | — | — | 8,141,584 |
| Cash and cash equivalents | 319,077 | — | — | 319,077 |
| Total investments in the fair value hierarchy | 44,778,867 | — | — | 44,778,867 |
| Collective trust fund ⁽¹⁾ | — | — | — | 4,516,754 |
| Total investments at fair value | \$44,778,867 | \$ — | \$ — | —\$49,295,621 |

⁽¹⁾ In accordance with FASB Accounting Codification Standards ("ASC") 820-10, certain investments that were measured at net asset value per share (or its equivalent) have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the statement of net assets available for benefits.

There were no transfers between Level 1 investments and Level 2 investments for the years ended December 31, 2017 and 2016.

(4) Plan Termination

Although it has not expressed any intent to do so, the Company reserves the right to terminate the Plan at any time, subject to Plan provisions. Upon termination of the Plan, participant accounts will be distributed to the participant or his or her beneficiary as prescribed by the Plan document and the IRC.

(5) Tax Status

The Plan obtained its latest favorable determination letter on May 22, 2018, in which the Internal Revenue Service ("IRS") ruled that the Plan, as amended through December 30, 2015, was in compliance with the applicable requirements of the IRC. Although the Plan has been amended since the as amended date in the favorable determination letter, the Plan administrator believes that the Plan is designed and is currently being operated in compliance with the applicable requirements of the IRC. Accordingly, no provision for income taxes has been included in the Plan's financial statements as of December 31, 2017.

Accounting principles generally accepted in the United States of America require Plan management to evaluate tax positions taken by the Plan and recognize a tax liability (or asset) if the Plan has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS. The Plan administrator has analyzed the tax positions taken by the Plan, and has concluded that as of December 31, 2017 and 2016, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. 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 it is no longer subject to income tax examinations for years prior to 2015.

(6) Party-in-Interest Transactions

A party-in-interest is defined under Department of Labor and ERISA regulations as any fiduciary of the Plan, any party rendering service to the Plan, the employer, and certain others. The following qualify as a party-in-interest or party-in-interest transactions:

Certain officers of the Company serve as Trustees of the Plan and certain officers or employees of the Company may perform administrative functions for the Plan. No officer or employee receives compensation from the Plan. The Plan's assets are held by Matrix Trust Company, a Broadridge Financial Solutions, Inc. company, the custodian of the Plan assets. The Plan assets are managed by the custodian, at the direction of the Trustees, which invests cash received, interest and dividend income, and makes distributions to participants.

Northwest Plan Services, Inc. ("NWPS") serves as the recordkeeper of the Plan. The recordkeeper maintains participant account detail and administers the payment of interest and principal on the participant loans. NWPS acquired Trautmann, Maher and Associates ("TMA") during August 2016. TMA was the recordkeeper before the acquisition by NWPS.

RBC Wealth Management serves as the investment advisor to the Plan.

The Plan issues loans to participants, which are secured by the balance in the participant's accounts.

The Plan's investment in Heritage Financial Corporation common stock constitutes a party-in-interest transaction as the Company is a related party. The value of the Company common stock held by the Plan as of December 31, 2017 and 2016 is disclosed in Note (3) Fair Value Measurements. Total dividend income recognized by the Plan from the investment in Heritage Financial Corporation common stock was \$183,574 during the year ended December 31, 2017.

(7) Reconciliation of Financial statements to Form 5500

The following is a reconciliation of net assets available for benefits per the financial statements to the Form 5500 at December 31:

| | December 31, 2017 | December 31, 2016 |
|---|----------------------|----------------------|
| Net assets available for benefits per the financial statements | \$ 59,075,572 | \$ 50,517,929 |
| Amounts allocated to withdrawing participants at current year end | — | (323,422) |
| Net assets available for benefits per the Form 5500 | \$ 59,075,572 | \$ 50,194,507 |

The following is a reconciliation of the change in net assets available for benefits per the financial statements to the Form 5500:

| | Year Ended December 31, 2017 |
|---|---------------------------------------|
| Net increase in net assets available for benefit per the financial statements | \$ 8,557,643 |
| Amounts allocated to withdrawing participants at current year end | — |
| Amounts allocated to withdrawing participants at prior year end | 323,422 |
| Net income per the Form 5500 | \$ 8,881,065 |

HERITAGE FINANCIAL CORPORATION
 401(k) PROFIT SHARING PLAN AND TRUST
 EIN: 91-1857900
 Plan Number: 003
 Form 5500, Schedule H, Line 4(i) - Schedule of Assets (Held at End of Year)
 December 31, 2017

| (a) (b) | (c) | (d) | (e) |
|--|--|------|---------------|
| Identity of issue, borrower, lessor or similar party | Description of investment including maturity date, rate of interest, collateral, par or maturity value | Cost | Current Value |
| Participant-directed investments: | | | |
| Mutual funds: | | | |
| American Funds EuroPacific Growth - R4 | 57,289 shares | ** | 3,156,066 |
| American Fund Capital World G&I - R4 | 5,913 shares | ** | 301,463 |
| AMG Managers Fairpointe Mid Cap - N | 47,332 shares | ** | 2,020,588 |
| Columbia Contrarian Core - Z | 35,901 shares | ** | 928,388 |
| Invesco Growth and Income - A | 112,915 shares | ** | 3,045,328 |
| Metropolitan West Total Return Bond - I | 336,701 shares | ** | 3,589,231 |
| Oppenheimer Developing Markets - Y | 37,709 shares | ** | 1,619,233 |
| T. Rowe Price Blue Chip Growth | 50,878 shares | ** | 4,900,026 |
| T. Rowe Price QM US Small Cap Growth | 96,682 shares | ** | 3,373,238 |
| Templeton Global Bond - Advisor | 94,028 shares | ** | 1,114,231 |
| Vanguard 500 Index Fund - Admiral | 32,162 shares | ** | 7,938,192 |
| Vanguard Extended Market Index - Admiral | 41,480 shares | ** | 3,515,851 |
| Vanguard REIT Index - Admiral | 11,701 shares | ** | 1,375,399 |
| Vanguard Total Bond Market Index - Admiral | 232,304 shares | ** | 2,497,271 |
| Vanguard Total Int'l Stock Index - Admiral | 67,711 shares | ** | 2,066,541 |
| Vanguard Target Retirement 2020 | 3,734 shares | ** | 117,182 |
| Vanguard Target Retirement 2040 | 648 shares | ** | 23,172 |
| Wells Fargo Special Small Cap Val - Admin | 63,647 shares | ** | 2,269,635 |
| Collective trust fund: | | | |
| Wells Fargo Stable Value M | 95,976 units | ** | 4,803,621 |
| * Heritage Financial Corporation common stock | 296,364 shares | ** | 9,128,011 |
| Schwab money market account | 318,996 units | ** | 318,996 |
| | | | 58,101,663 |
| * Notes receivable from participants | Interest rates from 3.25% to 4.25% and maturity between | ** | 826,950 |

September
2019 through
June 2044

\$58,928,613

- * A party-in-interest as defined by ERISA.
- ** The cost of participant-directed investments is not required to be disclosed and therefore is not included.

See accompanying Report of Independent Registered Public Accounting Firm.

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SIGNATURES

The Plan, pursuant to the requirements of the Securities Exchange Act of 1934, the trustees (or other person who administer the Plan) have duly caused the annual report to be signed on its behalf by the undersigned hereunto duly authorized.

HERITAGE FINANCIAL
CORPORATION 401(k)
PROFIT SHARING PLAN AND TRUST

Date: June 26, 2018 By: /s/ Brian L. Vance
Brian L. Vance
President and Chief Executive Officer

Date: June 26, 2018 By: /s/ Donald J. Hinson
Donald J. Hinson
Chief Financial Officer