HCA Healthcare, Inc.
Form 10-Q
August 04, 2017
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2017

Or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission file number 1-11239

HCA Healthcare, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**27-3865930**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
One Park Plaza Nashville, Tennessee	**37203**
(Address of principal executive offices)	**(Zip Code)**

(615) 344-9551

(Registrant s telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company or an emerging growth company. See the definitions of large accelerated filer, accelerated filer, smaller reporting company and emerging growth company in Rule 12b-2 of the Exchange Act.

Large accelerated filer		Accelerated filer
Non-accelerated filer	(Do not check if a smaller reporting company)	Smaller reporting company
Emerging growth company		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate the number of shares outstanding of each of the issuer s classes of common stock as of the latest practicable date.

Class of Common Stock	**Outstanding at July 31, 2017**
Voting common stock, $.01 par value	361,249,700 shares

HCA HEALTHCARE, INC.

Form 10-Q

June 30, 2017

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HCA HEALTHCARE, INC.

CONDENSED CONSOLIDATED INCOME STATEMENTS

FOR THE QUARTERS AND SIX MONTHS ENDED JUNE 30, 2017 AND 2016

Unaudited

(Dollars in millions, except per share amounts)

	Quarter		Six Months	
	2017	**2016**	**2017**	**2016**
Revenues before provision for doubtful accounts	**$ 11,806**	$ 11,081	**$ 23,189**	$ 22,131
Provision for doubtful accounts	**1,073**	762	**1,833**	1,552
Revenues	**10,733**	10,319	**21,356**	20,579
Salaries and benefits	**4,896**	4,691	**9,797**	9,393
Supplies	**1,795**	1,718	**3,592**	3,432
Other operating expenses	**1,965**	1,868	**3,895**	3,721
Equity in earnings of affiliates	**(13)**	(10)	**(23)**	(22)
Depreciation and amortization	**521**	489	**1,042**	968
Interest expense	**411**	427	**830**	843
Gains on sales of facilities	**(2)**	(6)	**(3)**	(5)
Legal claim costs		10		22
	9,573	9,187	**19,130**	18,352
Income before income taxes	**1,160**	1,132	**2,226**	2,227
Provision for income taxes	**365**	341	**654**	625
Net income	**795**	791	**1,572**	1,602
Net income attributable to noncontrolling interests	**138**	133	**256**	250
Net income attributable to HCA Healthcare, Inc.	**$ 657**	$ 658	**$ 1,316**	$ 1,352
Per share data:				
Basic earnings per share	**$ 1.79**	$ 1.70	**$ 3.58**	$ 3.45
Diluted earnings per share	**$ 1.75**	$ 1.65	**$ 3.48**	$ 3.34
Shares used in earnings per share calculations (in millions):				
Basic	**365.847**	386.406	**368.056**	391.401
Diluted	**375.338**	398.659	**377.647**	404.617

See accompanying notes.

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HCA HEALTHCARE, INC.

CONDENSED CONSOLIDATED COMPREHENSIVE INCOME STATEMENTS

FOR THE QUARTERS AND SIX MONTHS ENDED JUNE 30, 2017 AND 2016

Unaudited

(Dollars in millions)

	Quarter		Six Months	
	2017	2016	2017	2016
Net income	**$ 795**	$ 791	**$ 1,572**	$ 1,602
Other comprehensive income (loss) before taxes:				
Foreign currency translation	**45**	(86)	**55**	(129)
Unrealized gains on available-for-sale securities	**2**	3	**5**	5
Defined benefit plans				
Pension costs included in salaries and benefits	**4**	5	**9**	9
	4	5	**9**	9
Change in fair value of derivative financial instruments	**(11)**	(32)	**(8)**	(70)
Interest costs included in interest expense	**6**	28	**13**	56
	(5)	(4)	**5**	(14)
Other comprehensive income (loss) before taxes	**46**	(82)	**74**	(129)
Income taxes (benefits) related to other comprehensive income items	**19**	(32)	**29**	(50)
Other comprehensive income (loss)	**27**	(50)	**45**	(79)
Comprehensive income	**822**	741	**1,617**	1,523
Comprehensive income attributable to noncontrolling interests	**138**	133	**256**	250
Comprehensive income attributable to HCA Healthcare, Inc.	**$ 684**	$ 608	**$ 1,361**	$ 1,273

See accompanying notes.

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HCA HEALTHCARE, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

Unaudited

(Dollars in millions)

	June 30, 2017	December 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 705**	$ 646
Accounts receivable, less allowance for doubtful accounts of $5,050 and $4,988	**5,782**	5,826
Inventories	**1,544**	1,503
Other	**1,306**	1,111
	9,337	9,086
Property and equipment, at cost	**38,306**	37,055
Accumulated depreciation	**(21,538)**	(20,703)
	16,768	16,352
Investments of insurance subsidiaries	**352**	336
Investments in and advances to affiliates	**197**	206
Goodwill and other intangible assets	**6,771**	6,704
Other	**1,141**	1,074
	$ 34,566	$ 33,758
LIABILITIES AND STOCKHOLDERS DEFICIT		
Current liabilities:		
Accounts payable	**$ 2,245**	$ 2,318
Accrued salaries	**1,209**	1,265
Other accrued expenses	**2,104**	2,035
Long-term debt due within one year	**213**	216
	5,771	5,834
Long-term debt, less net debt issuance costs of $179 and $170	**31,448**	31,160
Professional liability risks	**1,144**	1,148
Income taxes and other liabilities	**1,282**	1,249
Stockholders deficit:		
Common stock $0.01 par; authorized 1,800,000,000 shares; outstanding 362,895,000 shares in 2017 and 370,535,900 shares in 2016	**4**	4
Accumulated other comprehensive loss	**(293)**	(338)
Retained deficit	**(6,503)**	(6,968)
Stockholders deficit attributable to HCA Healthcare, Inc.	**(6,792)**	(7,302)
Noncontrolling interests	**1,713**	1,669
	(5,079)	(5,633)

	$ 34,566	$ 33,758

See accompanying notes.

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HCA HEALTHCARE, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE SIX MONTHS ENDED JUNE 30, 2017 AND 2016

Unaudited

(Dollars in millions)

	2017	2016
Cash flows from operating activities:		
Net income	**$ 1,572**	$ 1,602
Adjustments to reconcile net income to net cash provided by operating activities:		
Increase (decrease) in cash from operating assets and liabilities:		
Accounts receivable	**(1,752)**	(1,364)
Provision for doubtful accounts	**1,833**	1,552
Accounts receivable, net	**81**	188
Inventories and other assets	**(178)**	(176)
Accounts payable and accrued expenses	**(298)**	(102)
Depreciation and amortization	**1,042**	968
Income taxes	**267**	67
Gains on sales of facilities	**(3)**	(5)
Legal claim costs		22
Amortization of debt issuance costs	**16**	18
Share-based compensation	**140**	129
Other	**45**	37
Net cash provided by operating activities	**2,684**	2,748
Cash flows from investing activities:		
Purchase of property and equipment	**(1,304)**	(1,172)
Acquisition of hospitals and health care entities	**(295)**	(430)
Disposal of hospitals and health care entities	**14**	14
Change in investments	**(11)**	18
Other	**5**	15
Net cash used in investing activities	**(1,591)**	(1,555)
Cash flows from financing activities:		
Issuances of long-term debt	**1,502**	3,000
Net change in revolving bank credit facilities	**(1,160)**	
Repayment of long-term debt	**(95)**	(2,065)
Distributions to noncontrolling interests	**(248)**	(205)
Payment of debt issuance costs	**(25)**	(24)
Repurchases of common stock	**(966)**	(1,858)
Other	**(42)**	(91)
Net cash used in financing activities	**(1,034)**	(1,243)
Change in cash and cash equivalents	**59**	(50)

Cash and cash equivalents at beginning of period		**646**		741
Cash and cash equivalents at end of period	**$**	**705**	$	691
Interest payments	**$**	**834**	$	767
Income tax payments, net	**$**	**387**	$	558

See accompanying notes.

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HCA HEALTHCARE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

HCA Healthcare, Inc. (formerly known as HCA Holdings, Inc.) is a holding company whose affiliates own and operate hospitals and related health care entities. The term affiliates includes direct and indirect subsidiaries of HCA Healthcare, Inc. and partnerships and joint ventures in which such subsidiaries are partners. At June 30, 2017, these affiliates owned and operated 172 hospitals, 119 freestanding surgery centers and provided extensive outpatient and ancillary services. HCA Healthcare, Inc. s facilities are located in 20 states and England. The terms Company, HCA, we, our or us, as used herein and unless otherwise stated or indicated by context, refer to HCA Healthcare, Inc. and its affiliates. Th terms facilities or hospitals refer to entities owned and operated by affiliates of HCA and the term employees refers to employees of affiliates of HCA.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles for complete consolidated financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included and are of a normal and recurring nature.

The majority of our expenses are costs of revenues items. Costs that could be classified as general and administrative would include our corporate office costs, which were $92 million and $93 million for the quarters ended June 30, 2017 and 2016, respectively, and $182 million and $178 million for the six months ended June 30, 2017 and 2016, respectively. Operating results for the quarter and six months ended June 30, 2017 are not necessarily indicative of the results that may be expected for the year ending December 31, 2017. For further information, refer to the consolidated financial statements and footnotes thereto included in our annual report on Form 10-K for the year ended December 31, 2016.

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HCA HEALTHCARE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 1 BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenues

Revenues are recorded during the period the health care services are provided, based upon the estimated amounts due from the patients and third-party payers. Third-party payers include federal and state agencies (under the Medicare and Medicaid programs), managed care health plans and commercial insurance companies (including plans offered through the health insurance exchanges), and employers. Estimates of contractual allowances under managed care health plans are based upon the payment terms specified in the related contractual agreements. Revenues related to uninsured patients and uninsured copayment and deductible amounts for patients who have health care coverage may have discounts applied (uninsured discounts and contractual discounts). We also record a provision for doubtful accounts (based primarily on historical collection experience) related to uninsured accounts to record net self-pay revenues at the estimated amounts we expect to collect. Our revenues from third-party payers, the uninsured and other for the quarters and six months ended June 30, 2017 and 2016 are summarized in the following table (dollars in millions):

	Quarter			
	2017	**Ratio**	**2016**	**Ratio**
Medicare	**$ 2,321**	**21.6%**	$ 2,217	21.5%
Managed Medicare	**1,187**	**11.1**	1,078	10.4
Medicaid	**453**	**4.2**	416	4.0
Managed Medicaid	**575**	**5.4**	608	5.9
Managed care and other insurers	**6,106**	**56.9**	5,759	55.8
International (managed care and other insurers)	**269**	**2.5**	324	3.1
	10,911	**101.7**	10,402	100.7
Uninsured	**519**	**4.8**	225	2.2
Other	**376**	**3.5**	454	4.4
Revenues before provision for doubtful accounts	**11,806**	**110.0**	11,081	107.3
Provision for doubtful accounts	**(1,073)**	**(10.0)**	(762)	(7.3)
Revenues	**$ 10,733**	**100.0%**	$ 10,319	100.0%

	Six Months			
	2017	**Ratio**	**2016**	**Ratio**
Medicare	**$ 4,726**	**22.1%**	$ 4,483	21.8%
Managed Medicare	**2,390**	**11.2**	2,182	10.6
Medicaid	**826**	**3.9**	843	4.1
Managed Medicaid	**1,216**	**5.7**	1,205	5.9
Managed care and other insurers	**12,032**	**56.3**	11,461	55.7
International (managed care and other insurers)	**538**	**2.5**	641	3.1
	21,728	**101.7**	20,815	101.2
Uninsured	**744**	**3.5**	414	2.0
Other	**717**	**3.4**	902	4.4

Revenues before provision for doubtful accounts	**23,189**	**108.6**	22,131	107.6
Provision for doubtful accounts	**(1,833)**	**(8.6)**	(1,552)	(7.6)
Revenues	**$ 21,356**	**100.0%**	$ 20,579	100.0%

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HCA HEALTHCARE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 1 BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Recent Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board issued a final, converged, principles-based standard on revenue recognition. Companies across all industries will use a five-step model to recognize revenue from customer contracts. The new standard, which replaces nearly all existing revenue recognition guidance, will require significant management judgments and change the way many companies recognize revenue in their financial statements. In July 2015, the FASB decided to defer the effective date of the new revenue standard by one year to annual and interim periods beginning after December 15, 2017 for public entities and permit entities to adopt one year earlier if they choose. The FASB decided, based on its outreach to various stakeholders and continuing amendments to the new revenue standard, that a deferral was necessary to provide adequate time to effectively implement the new standard. We are continuing to evaluate the effects the adoption of this standard will have on our financial statements and financial disclosures. We believe the most significant impact will be to the presentation of our income statement where the provision for doubtful accounts will be recorded as a direct reduction to revenues and will not be presented as a separate line item. We expect to adopt the new standard using the full retrospective application, and we do not currently believe the adoption will have a significant impact on our recognition of net revenues or related disclosures for any period.

In February 2016, the FASB issued Accounting Standards Update 2016-02, *Leases* (ASU 2016-02), which requires lessees to recognize assets and liabilities for most leases. ASU 2016-02 is effective for public business entities for annual and interim periods beginning after December 15, 2018. Early adoption is permitted. ASU 2016-02 s transition provisions will be applied using a modified retrospective approach at the beginning of the earliest comparative period presented in the financial statements. We are currently evaluating the provisions of ASU 2016-02 to determine how our financial statements will be affected, and we believe the primary effect of adopting the new standard will be to record right-of-use assets and obligations for our leases currently classified as operating leases.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation.

NOTE 2 ACQUISITIONS AND DISPOSITIONS

During the six months ended June 30, 2017, we paid $189 million to acquire three hospital facilities (two of the hospital facilities have effective acquisition dates of July 1, 2017) and $106 million to acquire other nonhospital health care entities. During the six months ended June 30, 2016, we paid $343 million to acquire three hospital facilities and $87 million to acquire other nonhospital health care entities.

During the six months ended June 30, 2017, we received proceeds of $14 million and recognized a net pretax gain of $3 million related to sales of real estate and other investments. During the six months ended June 30, 2016, we received proceeds of $14 million and recognized a net pretax gain of $5 million related to sales of real estate and other investments.

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HCA HEALTHCARE, INC. (Continued)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 3 INCOME TAXES

Our liability for unrecognized tax benefits was $420 million, including accrued interest of $46 million, as of June 30, 2017 ($418 million and $45 million, respectively, as of December 31, 2016). Unrecognized tax benefits of $141 million ($137 million as of December 31, 2016) would affect the effective rate, if recognized.

Our provision for income taxes for the quarters ended June 30, 2017 and 2016, included tax benefits of $9 million and $44 million, respectively, and for the six months ended June 30, 2017 and 2016, included tax benefits of $76 million and $118 million, respectively, related to the settlement of employee equity awards. Our provision for income taxes for the quarter and six months ended June 30, 2017 also included $10 million and $12 million, respectively, of reductions in interest expense (net of tax) related to taxing authority examinations.

We are subject to examination by federal, state and foreign taxing authorities. Depending on the resolution of any federal, state and foreign tax disputes, the completion of examinations by federal, state or foreign taxing authorities, or the expiration of statutes of limitation for specific taxing jurisdictions, we believe it is reasonably possible that our liability for unrecognized tax benefits may significantly increase or decrease within the next 12 months. However, we are currently unable to estimate the range of any possible change.

NOTE 4 EARNINGS PER SHARE

We compute basic earnings per share using the weighted average number of common shares outstanding. We compute diluted earnings per share using the weighted average number of common shares outstanding, plus the dilutive effect of outstanding equity awards and potential shares, computed using the treasury stock method.

The following table sets forth the computation of basic and diluted earnings per share for the quarters and six months ended June 30, 2017 and 2016 (dollars and shares in millions, except per share amounts):

	Quarter		Six Months	
	2017	**2016**	**2017**	**2016**
Net income attributable to HCA Healthcare, Inc.	**$ 657**	$ 658	**$ 1,316**	$ 1,352
Weighted average common shares outstanding	**365.847**	386.406	**368.056**	391.401
Effect of dilutive incremental shares	**9.491**	12.253	**9.591**	13.216
Shares used for diluted earnings per share	**375.338**	398.659	**377.647**	404.617
Earnings per share:				
Basic earnings per share	**$ 1.79**	$ 1.70	**$ 3.58**	$ 3.45
Diluted earnings per share	**$ 1.75**	$ 1.65	**$ 3.48**	$ 3.34

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HCA HEALTHCARE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 5 INVESTMENTS OF INSURANCE SUBSIDIARIES

A summary of our insurance subsidiaries investments at June 30, 2017 and December 31, 2016 follows (dollars in millions):

	June 30, 2017			
	Amortized Cost	Unrealized Amounts Gains	Unrealized Amounts Losses	Fair Value
Debt securities:				
States and municipalities	**$ 364**	**$14**	**$**	**$ 378**
Money market funds	**20**			**20**
	384	**14**		**398**
Equity securities	**1**	**2**		**3**
	$ 385	**$16**	**$**	**401**
Amounts classified as current assets				**(49)**
Investment carrying value				**$ 352**

	December 31, 2016			
	Amortized Cost	Unrealized Amounts Gains	Unrealized Amounts Losses	Fair Value
Debt securities:				
States and municipalities	$ 345	$9	$(1)	$ 353
Money market funds	28			28
	373	9	(1)	381
Equity securities	1	3		4
	$ 374	$12	$(1)	385
Amounts classified as current assets				(49)
Investment carrying value				$ 336

At June 30, 2017 and December 31, 2016, the investments of our insurance subsidiaries were classified as available-for-sale. Changes in temporary unrealized gains and losses are recorded as adjustments to other comprehensive income (loss).

Scheduled maturities of investments in debt securities at June 30, 2017 were as follows (dollars in millions):

	Amortized Cost	Fair Value
Due in one year or less	$ 96	$ 96
Due after one year through five years	71	74
Due after five years through ten years	174	184
Due after ten years	43	44
	$ 384	$ 398

The average expected maturity of the investments in debt securities at June 30, 2017 was 3.9 years, compared to the average scheduled maturity of 5.5 years. Expected and scheduled maturities may differ because the issuers of certain securities have the right to call, prepay or otherwise redeem such obligations prior to their scheduled maturity date.

HCA HEALTHCARE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 6 FINANCIAL INSTRUMENTS

Interest Rate Swap Agreements

We have entered into interest rate swap agreements to manage our exposure to fluctuations in interest rates. These swap agreements involve the exchange of fixed and variable rate interest payments between two parties based on common notional principal amounts and maturity dates. Pay-fixed interest rate swaps effectively convert LIBOR indexed variable rate obligations to fixed interest rate obligations. The interest payments under these agreements are settled on a net basis. The net interest payments, based on the notional amounts in these agreements, generally match the timing of the related liabilities for the interest rate swap agreements which have been designated as cash flow hedges. The notional amounts of the swap agreements represent amounts used to calculate the exchange of cash flows and are not our assets or liabilities. Our credit risk related to these agreements is considered low because the swap agreements are with creditworthy financial institutions.

The following table sets forth our interest rate swap agreements, which have been designated as cash flow hedges, at June 30, 2017 (dollars in millions):

	Notional Amount	Maturity Date	Fair Value
Pay-fixed interest rate swaps	$ 1,000	December 2017	$ (5)
Pay-fixed interest rate swaps	2,000	December 2021	29

During the next 12 months, we estimate $8 million will be reclassified from other comprehensive income (OCI) to interest expense.

Derivatives Results of Operations

The following table presents the effect of our interest rate swaps on our results of operations for the six months ended June 30, 2017 (dollars in millions):

Derivatives in Cash Flow Hedging Relationships	Amount of Loss Recognized in OCI on Derivatives, Net of Tax	Location of Loss Reclassified from Accumulated OCI into Operations	Amount of Loss Reclassified from Accumulated OCI into Operations
Interest rate swaps	$ 5	Interest expense	$ 13

NOTE 7 ASSETS AND LIABILITIES MEASURED AT FAIR VALUE

Accounting Standards Codification 820, *Fair Value Measurements and Disclosures* (ASC 820) emphasizes fair value is a market-based measurement, and fair value measurements should be determined based on the assumptions market participants would use in pricing assets or liabilities. ASC 820 utilizes a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs classified within Levels 1 and 2 of the hierarchy) and the reporting entity s own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

HCA HEALTHCARE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 7 ASSETS AND LIABILITIES MEASURED AT FAIR VALUE (continued)

Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs may include quoted prices for similar assets and liabilities in active markets, as well as inputs observable for the asset or liability (other than quoted prices), such as interest rates, foreign exchange rates, and yield curves observable at commonly quoted intervals. Level 3 inputs are unobservable inputs for the asset or liability, which are typically based on an entity s own assumptions, as there is little, if any, related market activity. In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input significant to the fair value measurement in its entirety. Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment.

Cash Traded Investments

Our cash traded investments are generally classified within Level 1 or Level 2 of the fair value hierarchy because they are valued using quoted market prices, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency. Certain types of cash traded instruments are classified within Level 3 of the fair value hierarchy because they trade infrequently and therefore have little or no price transparency. The valuation of these securities involves the consideration of market factors and management s judgment.

Derivative Financial Instruments

We have entered into interest rate swap agreements to manage our exposure to fluctuations in interest rates. The valuation of these instruments is determined using widely accepted valuation techniques, including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves and implied volatilities. We incorporate credit valuation adjustments to reflect both our own nonperformance risk and the respective counterparty s nonperformance risk in the fair value measurements of these instruments.

Although we determined the majority of the inputs used to value our derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with our derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by us and our counterparties. We assessed the significance of the impact of the credit valuation adjustments on the overall valuation of our derivative positions, and at June 30, 2017 and December 31, 2016, we determined the credit valuation adjustments were not significant to the overall valuation of our derivatives.

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HCA HEALTHCARE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 7 ASSETS AND LIABILITIES MEASURED AT FAIR VALUE (continued)

The following tables summarize our assets and liabilities measured at fair value on a recurring basis as of June 30, 2017 and December 31, 2016, aggregated by the level in the fair value hierarchy within which those measurements fall (dollars in millions):

		June 30, 2017 Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets and Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Investments of insurance subsidiaries:				
Debt securities:				
States and municipalities	**$ 378**	**$**	**$ 378**	**$**
Money market funds	**20**	**20**		
	398	**20**	**378**	
Equity securities	**3**	**3**		
Investments of insurance subsidiaries	**401**	**23**	**378**	
Less amounts classified as current assets	**(49)**	**(20)**	**(29)**	
	$ 352	**$ 3**	**$ 349**	**$**
Interest rate swaps (Other)	**$ 29**	**$**	**$ 29**	**$**
Liabilities:				
Interest rate swaps (Income taxes and other liabilities)	**$ 5**	**$**	**$ 5**	**$**

		December 31, 2016 Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets and Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Investments of insurance subsidiaries:				
Debt securities:				
States and municipalities	$ 353	$	$ 347	$ 6
Money market funds	28	28		
	381	28	347	6

Equity securities	4	4		
Investments of insurance subsidiaries	385	32	347	6
Less amounts classified as current assets	(49)	(28)	(21)	
	$ 336	$ 4	$ 326	$ 6
Interest rate swaps (Other)	$ 31	$	$ 31	$
Liabilities:				
Interest rate swaps (Income taxes and other liabilities)	$ 12	$	$ 12	$

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HCA HEALTHCARE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 7 ASSETS AND LIABILITIES MEASURED AT FAIR VALUE (continued)

The $6 million reduction in the Level 3 investments of our insurance subsidiaries resulted from settlements. The estimated fair value of our long-term debt was $33.802 billion and $32.833 billion at June 30, 2017 and December 31, 2016, respectively, compared to carrying amounts, excluding net debt issuance costs, aggregating $31.840 billion and $31.546 billion, respectively. The estimates of fair value are generally based upon the quoted market prices or quoted market prices for similar issues of long-term debt with the same maturities.

NOTE 8 LONG-TERM DEBT

A summary of long-term debt at June 30, 2017 and December 31, 2016, including related interest rates at June 30, 2017, follows (dollars in millions):

	June 30, 2017	December 31, 2016
Senior secured asset-based revolving credit facility (effective interest rate of 2.7%)	**$ 1,760**	$ 2,920
Senior secured revolving credit facility		
Senior secured term loan facilities (effective interest rate of 3.6%)	**3,939**	3,981
Senior secured notes (effective interest rate of 5.4%)	**15,300**	13,800
Other senior secured debt (effective interest rate of 5.8%)	**589**	593
Senior secured debt	**21,588**	21,294
Senior unsecured notes (effective interest rate of 6.5%)	**10,252**	10,252
Net debt issuance costs	**(179)**	(170)
Total debt (average life of 7.3 years, rates averaging 5.4%)	**31,661**	31,376
Less amounts due within one year	**213**	216
	$ 31,448	$ 31,160

2017 Activity

During June 2017, we issued $1.500 billion aggregate principal amount of 5.500% senior secured notes due 2047. We will use the net proceeds for general corporate purposes, which may include funding all or a portion of the purchase price of certain previously announced hospital acquisitions, and the redemption, during the third quarter of 2017, of all $500 million aggregate principal amount of our existing 8.000% senior notes maturing in October 2018.

During June 2017, we amended our senior secured revolving credit facilities by (i) increasing the commitments under the senior secured asset-based revolving credit facility to $3.750 billion, (ii) extending the maturity date of the revolving credit commitments to June 28, 2022, (iii) amending the incremental facility provisions to permit the incurrence of additional incremental credit facilities in an aggregate principal amount of $1.5 billion and (iv) providing that the commitment fee for unutilized commitments under the senior secured asset-based revolving credit facility shall be 0.250% per annum.

2016 Activity

During August 2016, we issued $1.200 billion aggregate principal amount of 4.500% senior secured notes due 2027. We used the net proceeds for general corporate purposes and to retire a portion of one of our senior secured term loans. We also entered into a joinder agreement to retire the remaining portion of this senior

HCA HEALTHCARE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 8 LONG-TERM DEBT (continued)

2016 Activity (continued)