



# County Technical Assistance Service

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## Roads

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Dear Reader:

The following document was created from the CTAS electronic library known as e-Li. This online library is maintained daily by CTAS staff and seeks to represent the most current information regarding issues relative to Tennessee county government.

We hope this information will be useful to you; reference to it will assist you with many of the questions that will arise in your tenure with county government. However, the *Tennessee Code Annotated* and other relevant laws or regulations should always be consulted before any action is taken based upon the contents of this document.

Please feel free to contact us if you have questions or comments regarding this information or any other e-Li material.

Sincerely,

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## Roads

**Reference Number:** CTAS-1986

One of the biggest challenges with capitalizing roads is how to determine the historical and/or estimated historical costs of these assets. Many county-owned roads have been maintained in the county for decades, or even more than a century, and have changed over time from a simple dirt road to a multiple-lane asphalt road with numerous upgrades and courses of maintenance.

The GASB considered this accounting challenge when it implemented Statement 34 and requires that counties retroactively report roads at actual or estimated historical cost only back to—

- Those acquired on or after July 1, 1980 or,
- The last time the road was upgraded (gravel to oil-and-chip, etc.) or,
- The last time the road was replaced or resurfaced in a way that it extended the original useful life of the road (i.e. not considered routine maintenance).

Example 1:

Blue County is trying to determine the historical cost for Turkey Town Road (a county-owned gravel road). The road has been a gravel road for at least 50 years. Every year, the county grades the road a couple times and drops a few loads of gravel (less than \$100) on it for annual maintenance. As this road does not meet any of the requirements for capitalization (date acquired, no upgrades, only routine maintenance performed), county management chose not to capitalize this road.

Example 2:

Grey County is trying to determine the historical cost for Short Mountain Road (a county-owned oil-and-chip road). The road has existed for more than a hundred years. However, the road was gravel until 1994, when it was upgraded to oil-and-chip. Since this was the last major work project on this road, the county would determine an estimated historical cost (if actual cost was not known) for the cost of an oil-and-chip road and capitalize this amount as the road's cost with the acquisition date of the road being 1994 (when it was upgraded).

Example 3:

Black County is trying to determine the historical cost for Biven's Hill Road (a county-owned asphalt road). The road has been an asphalt road for a number of years, however the road was resurfaced three years ago during a large repaving project. The original historic cost of the road would be determined at the time of resurfacing if the project extended the useful life of the road and was not considered routine maintenance. The original acquisition date for the road would be the date of this last major resurfacing.

Often when new subdivisions are finished, the roads within the subdivision are brought up to county road standards and donated to the county. The capitalization cost of these roads should be the actual or estimated fair value of the roads at the time of donation. If the developer refuses to disclose the cost of the roads, the GASB has determined that a county can use an accurate estimate (based on comparable road construction costs) for the value of the donated infrastructure. Management should be cautious if they use a cost estimate provided by a road builder not to include the builder's profit margin into the cost estimate for a donated road.

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