

BUSINESS AND LAW SIMULATION

EXAM 2

Instructions: Select the single best answer for each question. Time allowed: 90 minutes. This is an open-book examination.

LICENSING — 21 Questions

1. A contractor holds a Building Contractor license at the Limited classification. The contractor wins a bid for a project initially valued at \$480,000. During construction the owner executes a change order increasing the total contract value to \$520,000. Which of the following correctly describes the contractor's situation?

- A. The contractor may complete the project because the original contract was within the license limit
- B. The contractor must obtain an Intermediate license before executing the change order — the total contract value now exceeds the \$500,000 Limited classification limit
- C. The contractor may complete the project if the change order work is subcontracted to an Unlimited contractor
- D. The license limit applies only to the original bid price — approved change orders are excluded from the financial limitation calculation

2. Under NCLBGC rules, a license may be placed on inactive status by which of the following actions?

- A. The qualifier passing away — the license automatically becomes inactive without Board notification
- B. The licensed entity ceasing all contracting operations and filing for business dissolution
- C. The qualifier requesting inactive status in writing pending their return from military deployment

D. The licensed entity submitting a written request to the Board — inactive status preserves the license number while the entity is not actively contracting

3. A general contractor licensed in North Carolina wants to verify that a subcontractor is currently licensed before awarding a subcontract. Which of the following is the most reliable method for verifying the subcontractor's license status?

A. Searching the NCLBGC's online license lookup tool, which displays current license status, classification, and financial limitation for all active licensees

B. Requesting a copy of the subcontractor's most recent renewal certificate

C. Calling the subcontractor's bonding company to confirm current licensed status

D. Reviewing the subcontractor's most recent project references for evidence of licensed work

4. Under NC General Statutes Chapter 87, a contractor who knowingly aids or assists an unlicensed person in performing work for which a license is required is subject to which of the following?

A. A written warning from the NCLBGC for facilitating unlicensed contracting

B. No consequence — responsibility rests solely with the unlicensed party performing the work

C. Disciplinary action by the Board — aiding and abetting unlicensed contracting is grounds for license suspension or revocation

D. A civil fine of \$500 assessed by the local building inspection department

5. When a licensed general contractor entity changes its business name without changing its legal structure, which of the following is required?

A. A complete new license application must be submitted — name changes require requalification

B. The entity must notify the NCLBGC of the name change and update its license records — the existing license number is maintained under the new name

C. The license must be surrendered and a new license issued under the new business name

D. No Board notification is required for a name change as long as the qualifier remains the same

6. A NC Building Contractor at the Unlimited classification level may perform which of the following types of construction work under that license?

- A. Any construction project including highway and heavy civil work at any dollar value
- B. Any building construction project at any value plus fire sprinkler and elevator installation
- C. Only commercial and industrial building construction — residential work requires a separate Residential Contractor license
- D. Building construction of any type and value within the Building Contractor classification scope — unlimited as to project dollar value

7. Under NCLBGC rules, which of the following correctly describes the continuing education requirement for a licensed Building Contractor entity that has two qualified persons listed on the license?

- A. At least one qualifier must complete the required 8 hours of continuing education per renewal cycle including the mandatory 2-hour Board course
- B. Both qualifiers must each independently complete 8 hours of CE per renewal cycle
- C. The entity must complete a combined total of 16 hours split between the two qualifiers
- D. Only the primary qualifier must complete CE — secondary qualifiers are exempt

8. A licensed contractor performs a \$65,000 home renovation project. The homeowner later discovers serious construction defects and files a complaint with the NCLBGC. The Board investigates and finds that the contractor delivered defective work. Which of the following disciplinary actions may the Board take?

- A. Order the contractor to pay the homeowner \$65,000 in compensation directly
- B. Impose a monetary judgment against the contractor on behalf of the homeowner
- C. Suspend or revoke the contractor's license based on the finding of incompetent or defective work
- D. Refer the matter to the NC Attorney General for criminal prosecution

9. Under NC Chapter 87, the term "building contractor" as defined in the licensing statute specifically covers which of the following types of construction activity?

- A. All construction work of any type performed within North Carolina
- B. The construction, repair, or remodeling of buildings and structures other than single-family and two-family residences covered exclusively by the Residential Contractor licensing category
- C. Only commercial construction — all residential work falls under the Residential Contractor licensing statutes
- D. Only new construction — renovation and repair work under \$100,000 is exempt from licensing

10. A contractor is hired to build a commercial building. During construction, the contractor's qualifier resigns. The contractor continues operating for several months without notifying the NCLBGC or obtaining a new qualifier. Which of the following most accurately describes the contractor's license status during this period?

- A. The license remains valid because it was issued to the entity, not the individual qualifier
- B. The license is automatically suspended on the date the qualifier resigns
- C. The license is valid for 90 days after the qualifier's departure before action is required
- D. The contractor may be operating without a valid qualifier, exposing the license to suspension and constituting unlicensed contracting during the period without a qualifier

11. A contractor applies for a Building Contractor license at the Limited classification and submits financial statements showing a net worth of \$14,000. The minimum required net worth for this classification is \$17,000. Which of the following will the Board most likely do?

- A. Deny the application — the financial requirements are mandatory and the stated net worth does not meet the \$17,000 minimum
- B. Issue the license with a provisional status pending submission of updated financials showing the required net worth
- C. Issue the license at a reduced financial limitation level until the net worth requirement is met
- D. Return the application requesting a corrected financial statement from a different CPA

12. Under NCLBGC rules, a contractor's license renewal must be completed by which of the following dates each year?

- A. January 1 of each year — licenses expire on December 31 of the prior year
- B. July 1 of each year — licenses expire on June 30 of the prior year
- C. December 31 of each year — licenses expire annually on this date and must be renewed
- D. The anniversary date of the original license issuance — renewal is due each year on that date

13. A contractor is disciplined by the NCLBGC and has their license suspended for 90 days. During the suspension period, the contractor may do which of the following?

- A. Continue work on projects that were under contract before the suspension was imposed
- B. Not bid, contract for, or perform any general contracting work requiring a license during the suspension period
- C. Perform work valued under \$40,000 because the licensing threshold still applies during suspension
- D. Perform only residential work valued under \$100,000 if a licensed qualifier is supervising

14. Under NCLBGC rules, a contractor who receives an NCLBGC complaint and is scheduled for a disciplinary hearing may take which of the following actions before the hearing?

- A. Immediately surrender the license to avoid the hearing process entirely
- B. Appeal directly to the NC Superior Court before any Board hearing occurs
- C. Request a continuance of the hearing date if additional time is needed to prepare a response
- D. Request a formal hearing before the Board, retain legal counsel, present evidence, and cross-examine witnesses

15. The NC Licensing Board for General Contractors is governed by which of the following documents establishing its authority and jurisdiction?

- A. NC General Statutes Chapter 87 — the enabling statute that creates the Board and defines its authority
- B. The NC Administrative Procedure Act — which governs all NC regulatory boards equally
- C. NC General Statutes Chapter 136 — the highway construction and public works statute
- D. The NC Building Code — which defines construction work requiring inspection and licensing

16. A contractor holds an Unlimited Building Contractor license. The entity's net worth declines below the \$150,000 minimum required for the Unlimited classification. Which of the following best describes the consequence?

- A. The license automatically downgrades to the Intermediate classification
- B. The contractor may continue at the Unlimited level for one full renewal cycle before financial review
- C. The Board may require updated financial statements and may reclassify or condition the license if the financial requirements are no longer met
- D. No consequence — net worth is only verified at initial application and at each change of qualifier

17. Under NC licensing law, which of the following types of work specifically requires a general contractors license when the value exceeds \$40,000?

- A. Landscaping and irrigation system installation only — not covered by the building contractor classification
- B. Fire suppression and sprinkler system installation only — a specialty trade requiring separate licensing
- C. Electrical system installation and repair — a specialty trade licensed by a separate board
- D. General contracting work — the construction, repair, alteration, or demolition of any building or structure

18. A contractor completes a project and the owner refuses to pay the final \$38,000 balance. The contractor files a complaint with the NCLBGC asking the Board to order the owner to pay. Which of the following describes the Board's authority in this situation?

- A. The Board may order the owner to pay within 30 days or face civil penalties

B. The Board does not have jurisdiction to resolve payment disputes between contractors and owners — the contractor's remedies are through lien law and civil litigation

C. The Board may mediate the dispute and issue a non-binding recommendation on the payment

D. The Board may suspend the contractor's license until the payment dispute is resolved

19. A sole proprietor with a NC Building Contractor license dies. What happens to the license?

A. The license terminates upon the death of the sole proprietor — it cannot be transferred to heirs or successors because it was issued to the individual entity

B. The license transfers automatically to the surviving spouse if they are listed as a co-owner

C. The license may be transferred to a family member who passes the required examinations within 90 days

D. The estate may continue performing licensed work for up to 6 months while a successor is identified

20. A contractor's license is revoked by the NCLBGC following a disciplinary hearing. The contractor may reapply for a new license after which of the following minimum period?

A. Six months from the date of revocation

B. One year from the date of revocation

C. At whatever time the Board determines appropriate — the Board may set conditions on future eligibility as part of the revocation order

D. Two years from the date of revocation — the mandatory waiting period under NC Chapter 87

21. A contractor holds both a Building Contractor Unlimited license and a separate Residential Contractor Unlimited license in North Carolina. A potential client asks the contractor to build a mixed-use development that includes retail space on the ground floor and residential units above. Which license covers this project?

A. The Residential Contractor license covers the entire project because residential units are included

B. The Building Contractor license covers the entire project because commercial space is the primary use

- C. Both licenses must be listed on the contract — the appropriate license applies to each separate portion
- D. The Building Contractor Unlimited license covers the entire project — mixed-use buildings are commercial structures governed by the commercial building code and the Building Contractor classification

LIENS AND BONDS — 8 Questions

22. Under NC Chapter 44A, which of the following parties is required to designate a lien agent for a private construction project in North Carolina?

- A. The general contractor — as the party responsible for managing the payment chain
- B. The owner — when the project cost is expected to exceed \$30,000 for commercial projects or meets the statutory threshold for the project type
- C. The lender — as the party whose security interest is most affected by potential lien claims
- D. The architect or engineer — as the design professional responsible for the project documents

23. A general contractor with a direct contract with the owner files a Claim of Lien on Real Property for \$210,000 in unpaid work. The contractor does not serve a Notice of Claim of Lien on Funds before filing. Which of the following describes this situation?

- A. The general contractor with a direct owner contract may file the Claim of Lien on Real Property directly without first serving a Notice of Claim of Lien on Funds — first-tier claimants are not required to serve this notice
- B. The lien is defective and will be dismissed because the Notice of Claim of Lien on Funds is a mandatory prerequisite for all lien filings
- C. The lien is valid but the contractor loses priority over other claimants by skipping the notice step
- D. The lien must be amended within 30 days to include the Notice of Claim of Lien on Funds reference

24. A performance bond on a public construction project primarily protects which of the following parties?

- A. The subcontractors and suppliers who have furnished labor and materials to the project
- B. The surety company that issued the bond against contractor insolvency during construction
- C. The public owner — guaranteeing that the project will be completed per contract terms if the contractor defaults
- D. The bonding agent who arranged the bond transaction on behalf of the contractor

25. A subcontractor files a Claim of Lien on Real Property within 120 days but fails to file an enforcement lawsuit within the 180-day deadline. Which of the following describes the consequence?

- A. The subcontractor may request a 30-day extension from the clerk of superior court before the lien expires
- B. The clerk of superior court automatically extends the lien for 90 days upon written notice from the claimant
- C. The lien remains valid but cannot be enforced for 12 months while the parties attempt mediation
- D. The lien is extinguished and unenforceable — the 180-day enforcement deadline is absolute and the underlying payment claim must be pursued through breach of contract litigation

26. An owner designates a lien agent for a construction project. The lien agent's contact information must be made available at which location so that potential lien claimants can find it?

- A. Posted at the project site in a conspicuous location and filed with the NC Department of Insurance — claimants must be able to identify and notify the lien agent
- B. Filed only with the clerk of superior court in the project county
- C. Maintained only in the owner's contract files — available to contractors upon written request
- D. Posted on the NCLBGC website alongside the general contractor's license information

27. A material supplier delivers lumber to a subcontractor's warehouse, where it is stored before being transported to the construction site. The lumber is later delivered to the site and incorporated into the building. At what point do the supplier's lien rights attach?

- A. When the lumber is delivered to the subcontractor's warehouse — delivery to any location controlled by the project team creates lien rights
- B. When the lumber is incorporated into the building — lien rights for material suppliers attach upon incorporation of the materials into the improvement
- C. When the supplier's invoice is submitted to the subcontractor — the billing date establishes the lien attachment point
- D. When the subcontractor acknowledges receipt of the lumber by signing the delivery ticket

28. Under the NC Little Miller Act, the time period within which a claimant with a direct subcontract with the prime contractor must file a payment bond lawsuit is which of the following?

- A. 90 days from the last date of furnishing
- B. 180 days from the last date of furnishing
- C. One year from the last date of furnishing — the applicable statute of limitations for Little Miller Act bond claims
- D. Two years from the last date of furnishing — the general NC contract statute of limitations

29. A general contractor receives a Notice of Claim of Lien on Funds from a subcontractor for \$28,000. The general contractor subsequently receives a draw payment of \$150,000 from the owner. Under NC lien law, the general contractor must withhold which amount from this payment?

- A. The full \$150,000 — all payments must be frozen when a lien on funds is served
- B. A pro-rata share of \$28,000 based on the percentage of the project complete at that time
- C. Nothing — the Claim of Lien on Funds affects only future payments, not the current draw
- D. At least \$28,000 — sufficient funds to cover the subcontractor's claim must be withheld from subsequent disbursements

ONE CALL — 5 Questions

30. Under NC 811 law, which of the following correctly describes an "emergency excavation" situation that may qualify for an exception to the standard three-business-day notice period?

- A. An immediate threat to life, health, or property that cannot wait — the excavator must still contact NC 811 before beginning but may proceed immediately with hand tools while awaiting locator response, then use mechanical equipment only after marking
- B. Any situation where the contractor is behind schedule and faces liquidated damages for delay
- C. Any excavation performed on private property by the property owner personally
- D. Any excavation where all utilities in the area are known and their locations have been verified within the past 30 days

31. A contractor calls NC 811 on a Monday morning at 9:00 AM. Assuming Tuesday, Wednesday, and Thursday are normal business days with no holidays, what is the earliest date the contractor may legally begin excavation?

- A. Wednesday of the same week — two business days after the call
- B. Friday of the same week — after three full business days (Tuesday, Wednesday, Thursday) have elapsed
- C. Thursday of the same week — three business days from Monday
- D. The following Monday — to allow one week for all utilities to complete their locate responses

32. After completing excavation and backfilling a portion of a trench, a contractor discovers an unmarked PVC pipe that was not shown on any utility drawings and was not marked during the locate process. The pipe appears to be an irrigation line. Which of the following is the correct action?

- A. Document the pipe location and proceed — unmarked irrigation lines are the property owner's responsibility
- B. Continue backfilling around the pipe carefully to protect it from further disturbance

C. Stop work at that location and contact NC 811 to report the discovery and request that the pipe be identified and documented before backfilling is completed

D. Cap the pipe and continue backfilling — irrigation systems do not pose a safety hazard

33. The NC 811 system assigns a ticket number to each locate request. The contractor should retain this ticket number for which of the following reasons?

A. It establishes proof that the contractor complied with the notification requirement and identifies which utilities were contacted if damage occurs or a violation is alleged

B. The ticket number is required to obtain building permits in most NC counties

C. The ticket number must be displayed on excavation equipment during the digging operation

D. It is needed to request a refund if utility operators fail to respond within the required period

34. Under NC 811 law, which of the following utility systems is specifically exempt from the locate and mark obligation when a locate request is submitted?

A. Private fiber optic networks installed exclusively on private commercial property with no connection to public rights-of-way

B. Underground sprinkler irrigation systems installed by the property owner for personal use

C. Telecommunications cables installed underground within apartment building parking lots

D. No utility system is completely exempt — all underground utilities are subject to the locate obligation under NC 811 law, though response quality may vary based on member status

EROSION AND SEDIMENTATION CONTROL — 3 Questions

35. A contractor begins grading a 1.2-acre commercial site without an approved Erosion and Sedimentation Control Plan. The county has a locally delegated erosion control program with a one-half-acre disturbance threshold. Which of the following correctly describes the enforcement action available to the local program?

- A. The local program may only issue a warning letter — stop-work authority is reserved for the state DEMLR
- B. The local program may issue a Notice of Violation and a stop-work order, and may assess civil penalties for each day of violation beginning on the date disturbance began without an approved plan
- C. The local program must refer the matter to DEMLR before any enforcement action may be taken
- D. No enforcement action is available until sediment actually leaves the site and enters a water body

36. Under the NC SPCA, which of the following persons must be identified as the "financially responsible party" on an Erosion and Sedimentation Control Plan application?

- A. The licensed general contractor responsible for installing and maintaining the BMPs
- B. The engineer or landscape architect who designed and sealed the erosion control plan
- C. The person or entity that owns the land or holds the financial responsibility for the land-disturbing activity — typically the property owner or developer
- D. The construction lender providing financing for the project through a deed of trust or construction loan

37. A contractor's approved Erosion and Sedimentation Control Plan specifies that all BMPs must be installed before any grading begins. A state inspector visits the site and observes that grading has commenced but silt fence has not yet been installed along the downslope perimeter. Under NC SPCA enforcement, which of the following may the inspector issue?

- A. A Notice of Violation only — inspectors may not issue stop-work orders without DEMLR director approval
- B. A written warning with a 48-hour cure period before any formal enforcement action is taken
- C. Nothing — BMP installation sequence deviations are not enforceable violations under current rules
- D. An immediate stop-work order requiring all grading activity to cease until the required BMPs are installed per the approved plan

SUBCONTRACTOR PAY REQUIREMENTS — 3 Questions

38. A general contractor includes the following language in a subcontract: "Subcontractor shall only be entitled to payment if and when General Contractor receives payment from Owner, and Owner's failure to pay for any reason shall relieve General Contractor of any obligation to pay Subcontractor." For this pay-if-paid clause to be enforceable in North Carolina, which condition must be satisfied?

- A. The subcontractor must acknowledge the clause by initialing it on a separate signature line
- B. The clause must be filed with the NCLBGC as part of a standard subcontract disclosure form
- C. The clause must be submitted to the owner for approval before the subcontract is executed
- D. The clause must be expressed in clear and unambiguous language that explicitly and unmistakably shifts the risk of owner non-payment to the subcontractor — ambiguous or general language will be construed as pay-when-paid only

39. A second-tier subcontractor — one who has a contract with a first-tier subcontractor — is owed \$22,000 for completed work. The first-tier subcontractor was paid by the general contractor but failed to pay the second-tier subcontractor. Under the NC Prompt Pay Act flow-through obligation, the first-tier subcontractor must pay the second-tier subcontractor within which of the following timeframes?

- A. Within seven days of receiving payment from the general contractor
- B. Within fourteen days of receiving payment from the general contractor
- C. Within thirty days of the second-tier subcontractor's invoice date
- D. Within the payment period specified in the subcontract between them — no statutory timeframe applies at the second tier

40. A general contractor disputes a subcontractor's pay application and withholds the entire \$40,000 application. The GC's internal notes show that only \$6,000 of the disputed work has any documented quality issue. The remaining \$34,000 is undisputed completed work for which the GC has already received owner payment. Which of the following most accurately describes this situation under the NC Prompt Pay Act?

- A. The GC's withholding is proper — the entire application may be held while any portion is disputed
- B. The GC must pay \$34,000 within seven days — withholding undisputed amounts for which owner payment has been received violates the Prompt Pay Act and subjects the GC to interest liability on the improperly withheld amount
- C. The GC may withhold the full amount for up to 30 days to complete its internal quality review process
- D. The subcontractor must file a lien before the GC is required to release any portion of the disputed application

BUSINESS AND LAW SIMULATION

EXAM 2 — ANSWER KEY

1. B — The financial limitation on a Building Contractor Limited license applies to the total contract value — including all approved change orders. When the change order increases the total to \$520,000, the project exceeds the \$500,000 Limited classification limit, and the contractor must obtain an Intermediate license before executing the change order. Proceeding without upgrading the license constitutes contracting above the authorized financial level, which is grounds for Board disciplinary action.
2. D — Inactive status is a voluntary election made by the licensed entity by submitting a written request to the Board. It preserves the license number and the entity's place in the licensing system while the entity is not actively performing licensed contracting work. Inactive status is appropriate during periods of ownership transition, market inactivity, or personal circumstances — it allows the entity to reactivate without reapplying from scratch.
3. A — The NCLBGC maintains an online license lookup tool that displays current license status, classification, financial limitation level, and qualifier information for all active licensees in real time. This is the most reliable verification method because renewal certificates can be outdated and third-party sources may not reflect current status. Verifying license status before awarding subcontracts protects the general contractor from unknowingly hiring unlicensed subcontractors.
4. C — Aiding and abetting unlicensed contracting — including allowing an unlicensed person to use a licensed contractor's name, license number, or credentials to perform work — is specifically prohibited under NC Chapter 87 and constitutes grounds for Board disciplinary action including license suspension or revocation. This provision prevents license lending arrangements that allow unqualified contractors to perform work the licensing system was designed to restrict to qualified, examined individuals.
5. B — When a licensed entity changes its business name without changing its legal structure, the entity must notify the NCLBGC and update its license records — but the existing license number is maintained. This is because the license belongs to the legal entity, and a name change does not create a new entity. Operating under a new name without updating the Board's records creates a mismatch between advertising and license records that may mislead owners and the public.
6. D — An Unlimited Building Contractor license authorizes building construction of any type and value within the Building Contractor classification scope — it is unlimited only as to project dollar value, not as to scope of work. Specialty trades such as fire sprinklers, electrical, and elevators require separate specialty licenses from their respective licensing boards. Highway and heavy civil

work falls under a separate Highway Contractor classification governed by a different licensing structure.

7. A — NCLBGC rules require that at least one qualifier for the licensed entity complete the required 8 hours of continuing education — including the mandatory 2-hour Board-produced course — per renewal cycle. When multiple qualifiers are listed, only one must complete the CE requirement to satisfy the entity's renewal obligation. However, the qualifying individual who completes the CE must be the one whose name is on the renewal application.
8. C — The NCLBGC's disciplinary authority is focused on license sanctions — the Board may suspend or revoke a contractor's license for delivering defective work or demonstrating incompetence. The Board does not have authority to award monetary damages or enter civil judgments on behalf of injured homeowners — those remedies require civil litigation. The license sanction protects future consumers by preventing the contractor from continuing to perform licensed work until competency issues are addressed.
9. B — The Building Contractor classification under NC Chapter 87 covers the construction, repair, remodeling, or demolition of buildings and structures that are not single-family or two-family residences exclusively covered by the Residential Contractor licensing category. Commercial, industrial, institutional, and multi-family buildings above the residential threshold fall within the Building Contractor classification. A contractor working on both commercial and residential projects may need both licenses depending on the work involved.
10. D — When a licensed entity's qualifier departs and the entity continues operating without notifying the Board or obtaining a replacement qualifier, the entity may be operating without a valid qualifier — exposing the license to suspension. Each project performed without a qualified individual supporting the license potentially constitutes unlicensed contracting. The Board's rules require prompt notification and resolution to maintain license validity.
11. A — The financial requirements for each license classification are mandatory minimum thresholds established by statute and Board rules. A net worth of \$14,000 falls below the \$17,000 minimum for the Limited classification, and the Board will deny the application until the financial requirement is met. Applicants must submit updated financial statements showing compliance before the license can be issued — there is no provisional license available at a reduced level.
12. C — NC Building Contractor licenses expire on December 31 of each year and must be renewed by that date. Contractors who fail to renew by December 31 operate on a lapsed license after that date. The Board sends renewal notices in advance of the deadline, but the contractor is responsible for timely renewal regardless of whether a notice is received. Late renewals may involve additional fees and CE completion requirements.
13. B — A license suspension means the contractor may not bid, contract for, or perform any general contracting work requiring a license during the suspension period. The suspension applies to the entity's licensed contracting authority regardless of the project value or type. Performing work

during a suspension constitutes unlicensed contracting and creates additional legal exposure beyond the original disciplinary matter.

14. D — When a contractor receives notice of a disciplinary complaint and hearing, they have the full procedural rights available under NC administrative law — including the right to request a formal hearing before the Board, retain and consult with legal counsel, present evidence and witnesses in their defense, and cross-examine witnesses presented against them. These procedural protections ensure due process before any license sanction is imposed.
15. A — NC General Statutes Chapter 87 is the enabling statute that creates the NCLBGC, defines the scope of contracting requiring a license, establishes license classifications and financial requirements, and grants the Board authority to examine applicants, issue licenses, and discipline licensees. Chapter 87 is the primary legal reference for all NCLBGC licensing and disciplinary matters and is the statute most heavily tested on the Business and Law examination.
16. C — The Board may require the contractor to submit updated financial statements when it learns that the entity's net worth may have declined below the classification minimum. If the financial statements confirm deficiency, the Board may reclassify the license to a lower classification, impose conditions, or take other appropriate action. Contractors are expected to maintain ongoing compliance with financial requirements — not merely at application time.
17. D — NC Chapter 87 requires a general contractors license for any general contracting work — the construction, repair, alteration, or demolition of any building or structure — when the total project value exceeds \$40,000. This includes commercial, industrial, residential, and institutional buildings. Specialty trades such as electrical, plumbing, and fire protection have their own separate licensing boards and are not covered by the Building Contractor license regardless of project value.
18. B — The NCLBGC does not have jurisdiction to resolve payment disputes between contractors and owners — its authority is limited to licensing and disciplinary matters affecting a contractor's fitness to hold a license. An unpaid contractor's remedies are through the NC lien law system (filing a Claim of Lien on Real Property and enforcement lawsuit) and civil litigation for breach of contract. The Board cannot order an owner to pay and cannot suspend the owner from any license.
19. A — A NC Building Contractor license issued to a sole proprietor is inseparable from the proprietor's legal identity — when the proprietor dies, the entity ceases to exist and the license terminates. Because licenses are non-transferable, the license cannot pass to heirs, a surviving spouse, or other successors. Any successor who wishes to continue the contracting business must apply for a new license in their own name, qualifying through examination.
20. C — When the NCLBGC revokes a contractor's license, the Board has discretion to set conditions on future eligibility as part of the revocation order — including specifying a minimum waiting period before reapplication, requiring evidence of remediation, or imposing other conditions. There is no single fixed waiting period mandated by statute for all revocations. The conditions attached to a revocation reflect the severity and nature of the underlying conduct.

21. D — A Building Contractor Unlimited license covers mixed-use buildings because mixed-use structures are commercial buildings governed by the International Building Code regardless of the residential component above the ground floor. The commercial use triggers the Building Contractor classification for the entire structure. A Residential Contractor license covers structures built under the Residential Building Code — typically one and two-family homes and townhouses — not mixed-use commercial buildings.
22. B — Under NC Chapter 44A, the owner of a project is required to designate a lien agent when the project cost is expected to exceed the applicable statutory threshold. The lien agent system places the notification burden on the owner because the owner is the party whose property is subject to potential liens and whose payment decisions affect the entire payment chain. The owner designates the lien agent before construction begins so that all potential claimants have a notification target.
23. A — A general contractor with a direct contract with the property owner has first-tier lien rights and may file a Claim of Lien on Real Property directly without first serving a Notice of Claim of Lien on Funds. The Notice of Claim of Lien on Funds is required for second and lower-tier claimants who do not have a direct contract with the owner and need to reach funds flowing through the payment chain. First-tier claimants have direct legal standing with the owner without the prerequisite notice.
24. C — A performance bond on a public construction project is the surety's guarantee to the public owner that the project will be completed per the contract terms if the prime contractor defaults. If the contractor fails to perform, the surety must either complete the project, finance the contractor's continued performance, or pay the owner the cost of completion up to the bond amount. The performance bond protects the public investment in the project — the payment bond separately protects subcontractors and suppliers.
25. D — The 180-day enforcement deadline is an absolute cutoff — failing to file the enforcement lawsuit within 180 days of the last date of furnishing extinguishes the lien entirely. The filed Claim of Lien on Real Property becomes a nullity that can no longer be enforced against the property. The underlying payment claim does not disappear — the claimant may still pursue the contractor for breach of contract — but the lien remedy against the real property is permanently lost.
26. A — The lien agent's contact information must be posted at the project site in a conspicuous location and the lien agent designation is filed with the NC Department of Insurance, which maintains the lien agent registry. This dual availability ensures that subcontractors and suppliers who arrive at the project site can identify the lien agent immediately, and that those who research the project before mobilizing can find the lien agent information through the Department of Insurance.
27. B — Under NC Chapter 44A, a material supplier's lien rights attach when the materials are incorporated into the improvement — not when they are delivered to a warehouse, invoiced, or acknowledged by the subcontractor. Materials stored off-site before delivery and incorporation are

not yet part of the improvement and do not give rise to lien rights until they become part of the construction. Tracking the date of incorporation is important for calculating the last-furnishing date for lien purposes.

28. C — Under the NC Little Miller Act, a claimant with a direct subcontract with the prime contractor has one year from the last date of furnishing to file a payment bond lawsuit. This one-year period is longer than the 90-day notice period for second-tier claimants and reflects the shorter chain of privity between the first-tier subcontractor and the prime. Missing the one-year filing deadline bars the bond claim regardless of the validity of the underlying payment obligation.
29. D — When a Notice of Claim of Lien on Funds is served, the receiving contractor must withhold at least the amount of the claimed lien from any subsequent disbursements received from the owner. At minimum, \$28,000 must be withheld from the \$150,000 draw to cover the subcontractor's claim. Disbursing funds in the face of a properly served lien on funds makes the disbursing party directly and personally liable to the claimant for the amount improperly paid — creating personal liability for the general contractor.
30. A — NC 811 law provides an emergency excavation exception for immediate threats to life, health, or property that cannot safely wait three business days. Even in an emergency, the excavator must still contact NC 811 before beginning excavation — the exception is not a complete bypass of notification. The excavator may proceed with hand tools while awaiting locator response, then transition to mechanical equipment after markings are in place. The emergency exception does not eliminate the notice obligation — it compresses the timeline.
31. B — The three full business days must completely elapse before excavation may begin. A Monday call means the three business days are Tuesday, Wednesday, and Thursday — making Friday the earliest legal start date. The day of the call does not count as one of the three business days. This is one of the most commonly misunderstood aspects of NC 811 compliance and is a directly tested concept on the Business and Law examination.
32. C — Discovering an unmarked utility during excavation — even one that appears to be a low-risk irrigation line — requires stopping work at that location and contacting NC 811 to report the discovery and request identification. Irrigation lines may contain water under pressure, may be electrified, or may be more critical than they appear. The legal obligation to report and identify unmarked utilities applies regardless of the apparent nature of the pipe — proceeding without identification creates both safety risk and legal liability.
33. A — The NC 811 ticket number is documentary evidence that the contractor complied with the notification requirement before beginning excavation. If damage occurs or a regulatory violation is alleged, the ticket number demonstrates which utilities were contacted, when the request was submitted, and what the locate response was. Without a ticket number, the contractor has no proof of compliance — which is a complete defense to many damage claims and regulatory violations.

34. D — NC 811 law applies to all underground utilities without exception based on ownership, property type, or purpose. All underground facilities — regardless of whether they are publicly or privately owned, residential or commercial, on public or private property — are subject to the locate obligation when properly submitted to the NC 811 system. The comprehensiveness of this obligation is what makes NC 811 an effective safety program — any exception would create uncertainty about when the law applies.
35. B — A locally delegated erosion control program with an approved local ordinance has full enforcement authority within its jurisdiction including the authority to issue Notices of Violation, stop-work orders, and civil penalties. The local program does not need to refer matters to DEMLR before acting. Civil penalties begin accruing from the date land disturbance began without an approved plan — not from the date the NOV is issued. This retroactive penalty accrual gives the local program strong financial leverage to achieve compliance.
36. C — The financially responsible party identified on an Erosion and Sedimentation Control Plan application is the person or entity that owns the land or holds the financial responsibility for the land-disturbing activity — typically the property owner or developer who has the financial resources and legal authority to ensure compliance with the approved plan. The contractor, engineer, and lender are important project participants but are not the financially responsible party for regulatory purposes unless they own or control the land.
37. D — When an approved Erosion and Sedimentation Control Plan specifies that BMPs must be installed before grading begins and an inspector observes grading without the required BMPs in place, the inspector may issue an immediate stop-work order. The approved plan is a binding commitment — deviating from its required sequence by beginning grading before installing BMPs is a direct violation of both the plan and the SPCA. A stop-work order protects water quality by immediately halting the activity creating uncontrolled erosion risk.
38. D — For a pay-if-paid clause to be enforceable in North Carolina as a true risk-shifting provision — eliminating the general contractor's payment obligation if the owner never pays — the clause must use clear and unambiguous language that explicitly states the intent to shift the risk of owner nonpayment to the subcontractor. Language that merely conditions the timing of payment without explicitly shifting the risk will be interpreted as a pay-when-paid timing mechanism only. The clarity requirement protects subcontractors from inadvertently waiving their right to payment.
39. A — The NC Prompt Pay Act's seven-day payment obligation flows through every tier of the payment chain. When a first-tier subcontractor receives payment from the general contractor for work performed by a second-tier subcontractor, the first-tier subcontractor must pay the second-tier subcontractor within seven days of receiving that payment. The seven-day obligation applies at every payment tier — it is not limited to the owner-to-GC or GC-to-first-tier relationships.
40. B — Under the NC Prompt Pay Act, a contractor may withhold only genuinely disputed amounts — it may not use a partial dispute as justification for withholding undisputed completed work for

which owner payment has already been received. The \$34,000 in undisputed work must be paid within seven days of receiving the owner's payment. Withholding undisputed amounts subjects the GC to automatic interest liability on the improperly withheld sum from the day after the seven-day deadline expires.