

# BUSINESS AND LAW SIMULATION

## EXAM 3

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**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 who holds a Building Contractor license at the Intermediate classification advertises on a company website as "North Carolina Unlimited General Contractor." Which of the following correctly describes this situation?

- A. The advertising is acceptable — classification titles are informal and the license number is what matters
- B. The advertising is acceptable if the license number appears alongside the title
- C. The advertising requires a disclaimer noting the \$1,500,000 project limit
- D. Advertising with a classification higher than the license held is misleading and may constitute grounds for Board disciplinary action

2. Under NC Chapter 87, the NCLBGC has the authority to issue subpoenas and compel the production of documents and testimony in connection with which of the following proceedings?

- A. Civil lawsuits between contractors and property owners over payment disputes
- B. Investigations and disciplinary hearings conducted by the Board regarding licensee conduct
- C. Building code compliance inspections conducted by local building departments
- D. Workers' compensation claims filed against licensed contractors

3. A contractor applies for a Building Contractor Unlimited license. The application requires submission of audited financial statements. The applicant submits reviewed financial statements prepared by a CPA rather than audited statements. Which of the following describes the Board's likely response?

- A. Accept the reviewed statements — they are substantially equivalent to audited statements for net worth verification purposes
- B. Accept the statements provisionally and require audited financials at the first renewal
- C. Return the application as incomplete — the Unlimited classification requires audited financial statements, not reviewed statements
- D. Accept the reviewed statements if the CPA provides a supplemental certification letter

4. A Building Contractor entity has its license revoked by the NCLBGC. The qualifier of the revoked entity immediately forms a new LLC and attempts to apply for a license in the new entity's name. Under NCLBGC rules, the Board may consider which of the following in evaluating the new application?

- A. The qualifier's history with the revoked entity — the Board may deny a new license if the circumstances of the revocation reflect on the qualifier's fitness regardless of the new entity name
- B. Only the new entity's financial qualifications — past revocations of other entities are irrelevant
- C. Only whether the qualifier has passed current examination requirements
- D. Only whether the new entity has sufficient bonding to cover potential project losses

5. A licensed NC general contractor performs work that results in a \$75,000 civil judgment against the contractor for construction fraud. The contractor pays the judgment. Under NCLBGC authority, which of the following additional consequence may the contractor face?

- A. No additional consequence — paying the judgment satisfies the contractor's legal obligations
- B. Mandatory retesting on both licensing examinations
- C. A \$75,000 assessment by the Board to reimburse the state's investigation costs
- D. Board disciplinary action including license suspension or revocation — fraud findings are independent grounds for licensing consequences separate from civil liability

6. Under NCLBGC rules, which of the following entities is specifically NOT required to hold a Building Contractor license to perform general contracting work above the \$40,000 threshold?

- A. A corporation whose shareholders include licensed real estate agents
- B. A licensed general contractor performing work on property they own as an owner-builder — under specific conditions an owner performing work on their own property may qualify for an exemption
- C. A limited liability company with no licensed qualifier on staff
- D. A general partnership in which neither partner holds a qualifying examination score

7. A contractor holds a Limited Building Contractor license. The contractor's qualifier passes away unexpectedly. The contractor's spouse, who has no construction experience, wants to continue the business. Under NC licensing law, which of the following applies?

- A. The spouse must pass both required licensing examinations and meet the financial requirements before a new license can be issued to continue the contracting business
- B. The spouse automatically qualifies as the new qualifier because of their ownership interest in the business
- C. The existing license continues for 12 months to allow the spouse to complete examination requirements
- D. The Board may waive the examination requirement for surviving spouses in extenuating circumstances

8. Under NCLBGC rules, a contractor's license number must appear on which of the following documents in addition to all advertising?

- A. Building permit applications only — no other documents require the license number
- B. The contractor's federal income tax returns and state business filings
- C. All contracts for construction work — the license number must be included in the written contract for licensed work
- D. Subcontract agreements only — the prime contract is the owner's responsibility to include the number

9. A contractor who holds an Intermediate Building Contractor license wins a bid for a \$1,400,000 project. During construction, the owner requests significant scope additions that the contractor estimates will increase the contract value to \$1,650,000. The contractor wants to execute the change orders. Which of the following is required before doing so?

- A. Obtain written confirmation from the owner that the increase is acceptable under the original contract terms
- B. Notify the NCLBGC of the anticipated scope increase and request a temporary exemption
- C. Secure a performance bond equal to the total increased contract value before executing the change order
- D. Upgrade to an Unlimited Building Contractor license before executing change orders that would cause the total contract value to exceed \$1,500,000

10. The NCLBGC is composed of members appointed by which of the following authority?

- A. The Governor of North Carolina — who appoints Board members according to the statutory composition requirements
- B. The NC General Assembly through joint resolution of both chambers
- C. The NC Secretary of State as the official overseer of professional licensing boards
- D. Licensed general contractors through an annual statewide election process

11. A contractor receives a complaint notice from the NCLBGC and is asked to respond within 30 days. The contractor believes the complaint is entirely without merit. Which of the following is the most appropriate response?

- A. Ignore the notice — meritless complaints are automatically dismissed without contractor participation
- B. Submit a written response to the Board within the specified period addressing each allegation with supporting documentation and a clear explanation of the contractor's position
- C. File a preemptive lawsuit against the complainant before responding to the Board
- D. Request that the Board close the matter immediately based on the contractor's years of licensure without incident

12. Under NC General Statutes Chapter 87, a contractor who performs work for a government entity — such as a county school system — without holding the required license is subject to which of the following?

- A. Only a formal reprimand — government projects receive special enforcement consideration
- B. Only the standard civil fine — criminal consequences do not apply to government contracts
- C. The same civil penalties and prohibition on recovering payment as unlicensed work on private projects — government ownership does not create an exemption from licensing requirements
- D. A mandatory 30-day cure period to obtain the required license before penalties are assessed

13. A contractor has held an Unlimited Building Contractor license for 15 years without any disciplinary actions. The contractor fails to complete the required 8 hours of CE before the renewal deadline. Which of the following most accurately describes the Board's authority in this situation?

- A. The Board must waive the CE requirement for contractors with clean disciplinary records
- B. The Board must grant a 90-day automatic extension for contractors with 10 or more years of licensure
- C. The Board must issue a formal reprimand but may not deny renewal for a CE deficiency alone
- D. The Board may deny renewal or impose conditions requiring CE completion — the CE requirement applies to all licensees regardless of tenure or disciplinary history

14. Under NCLBGC rules, a contractor who disagrees with the outcome of a Board disciplinary hearing may appeal the decision to which of the following?

- A. The NC Superior Court — Board decisions are subject to judicial review under the NC Administrative Procedure Act
- B. The NC Court of Appeals — the intermediate appellate court has original jurisdiction over Board appeals
- C. The NCLBGC's internal appeals committee — a panel of three Board members reviews all hearing decisions
- D. The NC Attorney General's office — which has oversight authority over all professional licensing boards

15. A licensed contractor's qualifier is actively licensed but has not been involved in the entity's day-to-day operations for over two years — the qualifier travels internationally and is unreachable for months at a time. Which of the following most accurately describes this situation?

- A. The arrangement is acceptable as long as the qualifier's examination results remain on file with the Board
- B. The Board has no mechanism to address a qualifier's level of operational involvement
- C. A qualifier who is not a bona fide managing participant in the entity's operations may not legitimately serve as a qualifier — this arrangement may constitute a license lending violation
- D. The arrangement is acceptable if the entity employs a licensed project manager to supervise field operations

16. A contractor submits a license application and lists a project manager as the entity's qualifier. The project manager passed the required examinations three years ago and works full-time for the company. Which of the following must also be verified for the qualifier to be valid?

- A. The project manager must hold a minimum 10% ownership interest in the company
- B. The project manager must be a bona fide owner, officer, or managing employee of the entity — a standard employee title without managing authority may not qualify
- C. The project manager must have a minimum of five years of field construction experience
- D. The project manager must have completed 40 hours of NCLBGC-approved management training

17. Under NC licensing statutes, a contractor who splits a project into multiple contracts each valued below \$40,000 to avoid the licensing requirement is subject to which of the following?

- A. The same licensing requirements as if the project were a single contract — artificial splitting to evade licensing is specifically addressed in NC Chapter 87 and may result in enforcement action
- B. No consequence — each individual contract below \$40,000 is lawfully exempt from licensing
- C. Only a civil fine if sediment leaves the split project site and enters a waterway
- D. A warning letter from the local building inspection department on the first offense

18. A licensed entity changes from an S corporation to a C corporation structure. The qualifier, officers, ownership, and business operations remain identical. Under NCLBGC rules, which of the following is required?

- A. Submit only a name change notification — corporate structure changes do not require Board action
- B. Surrender the existing license and requalify from scratch — the change disqualifies all prior licensure
- C. Apply for a new license as a new legal entity — an S corporation and a C corporation are separate legal entities even if the underlying ownership is identical
- D. File a corporate amendment form with the Board to update the entity type on the existing license

19. A contractor holds a Building Contractor license at the Limited classification with a \$17,000 net worth. The contractor bids and wins a \$490,000 commercial project that requires a \$50,000 performance and payment bond. The contractor's bonding capacity is limited to \$200,000. Which of the following describes a significant issue with proceeding?

- A. The project is within the license limit and the bond requirement can be waived by owner agreement
- B. No issue — bonding capacity is a private business matter unrelated to licensing compliance
- C. The license limit is the only constraint — bonding limitations are an internal financial matter
- D. A contractor whose bonding capacity is insufficient for the required project bond faces both a contractual performance problem and potentially a financial qualification concern — the Board's financial requirements exist to ensure contractors can meet their obligations on licensed projects

20. A contractor who has passed both required licensing examinations and meets all financial requirements applies for a new Building Contractor license at the Limited classification. The application is accepted and the license is issued. Which of the following correctly describes the continuing education obligation for this newly issued license?

- A. The contractor must complete 8 hours of CE including the mandatory Board course before the license is issued
- B. The contractor must complete 8 hours of CE including the mandatory 2-hour Board-produced course before the license may be renewed at the end of the first renewal cycle

C. The contractor must complete 4 hours of CE in the first year and 4 hours in the second year of the initial license period

D. No CE is required until after the contractor has held the license for a minimum of three full renewal cycles

21. Under NC Chapter 87, a contractor performing work in a county that does not have a local building department must ensure that the work complies with which of the following requirements in addition to holding the required license?

A. The NC State Building Code — which applies statewide regardless of local inspection infrastructure or enforcement capacity

B. Only the contractor's professional judgment — uninspected counties have no enforceable code requirements

C. The NCLBGC's construction quality standards — which substitute for local codes in uninspected jurisdictions

D. Only federal OSHA safety standards — which are the only enforceable requirements without local inspection

### **LIENS AND BONDS — 8 Questions**

22. A property owner receives a Notice of Claim of Lien on Funds from a subcontractor for \$35,000. The owner has a \$200,000 draw pending to the general contractor. Under NC Chapter 44A, the owner's obligation upon receiving this notice is which of the following?

A. Pay the full \$200,000 to the GC and separately arrange payment to the subcontractor within 30 days

B. Freeze all payments on the project until the subcontractor's claim is resolved through litigation

C. Withhold at least \$35,000 from the pending draw — disbursing less than the claimed amount to the GC while protecting the subcontractor's claim from being dissipated

D. Notify the subcontractor that the claim must be filed with the clerk of superior court before any withholding obligation applies

23. The primary legal effect of serving a Notice of Claim of Lien on Funds on the property owner is which of the following?

- A. It creates a Claim of Lien on Real Property that attaches to the owner's land immediately
- B. It gives the owner 15 days to pay the subcontractor directly before the general contractor is notified
- C. It triggers the owner's obligation to withhold funds from the general contractor equal to the claimed amount
- D. It places the owner on notice of the subcontractor's potential lien rights — protecting the claimant's priority against subsequent payment disbursements that would otherwise dissipate project funds

24. An owner completes a commercial construction project and purchases title insurance. Three months later, a subcontractor files a Claim of Lien on Real Property for \$18,000 — claiming the lien was filed within the 120-day window. Which of the following describes the title insurance's role in this situation?

- A. Title insurance does not cover mechanics' lien claims — the owner must resolve the lien through separate legal proceedings
- B. The title insurance policy may provide coverage for the subcontractor's lien claim if the lien was not disclosed at the time of closing and the policy covers mechanics' liens — the title insurer defends and resolves covered lien claims on behalf of the owner
- C. Title insurance automatically discharges any mechanics' lien filed after the policy issuance date
- D. Title insurance covers only the lender's interest — the owner must purchase a separate lien indemnity policy

25. Under NC Chapter 44A, a lien agent designation is required for private construction projects meeting the applicable threshold. The lien agent must be which of the following types of entity?

- A. A licensed title insurance company, title insurance agency, or attorney licensed to practice law in North Carolina
- B. Any financial institution insured by the FDIC or NCUA operating in North Carolina
- C. A licensed real estate attorney designated by the owner's title insurance lender
- D. A certified public accountant designated by the owner's construction lender

26. A contractor completes a project on May 1 and submits a final pay application. The owner makes a final payment on June 1 but the contractor believes \$22,000 in retainage was improperly withheld. The contractor decides to file a lien. For lien calculation purposes, the last date of furnishing is which of the following?

- A. May 1 — the date the contractor completed the last physical work on the project
- B. January 15 — the date the contractor last purchased materials for the project
- C. June 1 — the date the contractor received the final partial payment from the owner
- D. The date the contractor submitted the final pay application — billing activity counts as furnishing for lien purposes

27. Under the NC Little Miller Act, what is the notice deadline for a second-tier claimant — a subcontractor without a direct contract with the prime — to preserve a payment bond claim?

- A. 30 days from last furnishing
- B. 60 days from last furnishing
- C. 120 days from last furnishing — matching the private lien filing deadline
- D. 90 days from the last date the claimant furnished labor or materials to the project

28. Under NC Chapter 44A, the last date of furnishing for lien purposes is calculated based on which of the following?

- A. The date the contractor's final invoice was delivered to the owner or general contractor
- B. The last date the contractor actually performed work, delivered materials, or provided services that were genuinely part of the project scope — the most recent legitimate project activity
- C. The date the owner issued the certificate of substantial completion for the project
- D. The date the building inspection department issued the certificate of occupancy

29. A contractor on a public school project in NC fails to provide the required performance and payment bonds before beginning work, even though the contract value exceeds the \$300,000 Little Miller Act threshold. Which of the following describes the consequence?

- A. The school district must obtain the bonds on the contractor's behalf and deduct the premium from contract payments
- B. The contractor forfeits all rights to payment for work performed without bonds in place
- C. The school district may terminate the contract for failure to provide required bonds — and the contractor's failure to bond as required may be reported to the NCLBGC as grounds for disciplinary action
- D. The NC Department of Public Instruction must approve a bond waiver before the contractor may proceed

### **ONE CALL — 5 Questions**

30. Under NC 811 law, a property owner who personally performs excavation on their own residential property to install a fence post is subject to which of the following NC 811 obligations?

- A. The same notification obligation as any other excavator — all excavation in North Carolina requires prior notification to NC 811 regardless of who performs it or on whose property it occurs
- B. No notification obligation — residential property owners are specifically exempt from NC 811 requirements
- C. Notification is required only if the owner is digging within 5 feet of a known utility marker
- D. Notification is required only if the excavation exceeds 18 inches in depth on private residential property

31. A contractor submits a locate request for a proposed building site. One utility operator marks their facility running directly through the proposed foundation area. Before beginning any excavation in the affected area, what is the most critical coordination step?

- A. Obtain the utility company's written approval to excavate within 18 inches of their facility
- B. Install a trench box over the marked utility line before excavating nearby

C. Expose the utility by hand digging along the entire marked path before mechanical excavation begins anywhere on the site

D. Contact the utility operator to discuss relocation of their facility, coordinate the design accordingly, and do not begin excavation in the affected area until the conflict is formally resolved

32. An excavator who submits a locate request and receives all utility markings discovers on the morning excavation is scheduled to begin that heavy rain has washed away all of the paint marks and flags. Which of the following correctly describes the required action?

A. Continue excavation using the GPS coordinates recorded from the original markings

B. Contact NC 811 to submit a new locate request — markings that have been destroyed must be replaced before excavation may begin, even if the original marks were valid

C. Proceed using photographs taken of the original marks before the rain as reference

D. Contact the field supervisor and proceed at reduced speed with a spotter watching for utilities

33. A contractor excavating in a rural area encounters what appears to be an abandoned cast iron pipe that is not marked on any utility records and shows no connection to current infrastructure. Under NC 811 law and best practice, the contractor should do which of the following?

A. Remove the pipe and continue excavation — abandoned utilities are not protected by NC 811 requirements

B. Document the pipe location with photographs and proceed around it without disturbing it further

C. Stop excavation at the location, contact NC 811 to report the find, and request that utility operators verify whether the pipe is active or truly abandoned before continuing

D. Attempt to verify abandonment by tracing the pipe to its nearest access point before deciding whether to remove it

34. The NC 811 system requires utility operators who are members of the system to respond to locate requests within the three-business-day notice period. If a utility operator fails to respond, the excavator's correct action is which of the following?

- A. Contact NC 811 again before beginning excavation — the excavator should attempt to reach the non-responding utility before digging, because excavating without confirmation from all potentially affected utilities creates legal risk and safety hazard
- B. Proceed with excavation — the non-responding operator bears all liability for any resulting damage
- C. Contact the property owner to resolve the utility operator's failure to respond
- D. Wait five additional business days to allow the utility operator to complete their response

### **EROSION AND SEDIMENTATION CONTROL — 3 Questions**

35. A construction project disturbs 2.5 acres of land. The Erosion and Sedimentation Control Plan is approved and all required BMPs are installed. Six months into the project, record rainfall events occur that exceed the plan's design storm. Sediment escapes from the site despite properly maintained BMPs. Under the NC SPCA, which of the following most accurately describes the contractor's liability?

- A. The contractor has no liability — the rainfall exceeded the plan's design storm, creating a force majeure event
- B. The contractor may be exempt if they submit a rainfall exceedance report to DEMLR within 48 hours
- C. The contractor must demonstrate due diligence — properly maintained BMPs installed per an approved plan provide a reasonable defense, but the contractor must still respond promptly to repair damage and prevent further discharge
- D. The contractor is liable for full civil penalties from the date of the rainfall event regardless of BMP performance

36. Under the NC SPCA, which of the following land-disturbing activities is specifically exempt from the one-acre erosion control plan approval requirement?

- A. Residential subdivision development that disturbs less than 2 acres total across all lots

- B. Agricultural operations — tilling, planting, harvesting, and normal farm operations are generally exempt from SPCA plan requirements when conducted in good faith for agricultural purposes
- C. Land clearing for timber harvesting operations in watersheds above High Quality Waters
- D. Commercial grading operations where the contractor holds a licensed landscaping contractor certification

37. A contractor receives a stop-work order from the NC DEMLR Division for failing to maintain required BMPs after two prior Notices of Violation within the same calendar year. The contractor believes the stop-work order is unjustified because the current BMP conditions are adequate. Which of the following is the appropriate response?

- A. Ignore the stop-work order and continue grading — disagreeing with the order justifies non-compliance while the contractor seeks review
- B. File an emergency injunction in NC Superior Court to immediately stay the stop-work order
- C. Comply with the stop-work order immediately — then request a compliance conference with DEMLR or pursue the appeals process through proper channels while the order is respected
- D. Submit a written complaint to the NC Governor's office — which has authority to override DEMLR enforcement decisions

### **SUBCONTRACTOR PAY REQUIREMENTS — 3 Questions**

38. A subcontract agreement states: "General Contractor shall pay Subcontractor within thirty (30) days of General Contractor's receipt of payment from Owner for Subcontractor's work." Under NC law, this language most likely creates which type of payment obligation?

- A. A pay-when-paid timing provision — the GC's obligation to pay is delayed until the owner pays but is not permanently extinguished if the owner fails to pay. If the owner never pays, the GC remains ultimately obligated to the subcontractor
- B. A pay-if-paid risk-shifting provision — the subcontractor bears the full risk of owner non-payment
- C. An unenforceable provision — NC law requires immediate payment regardless of owner payment status

D. A conditional payment clause requiring mandatory mediation before the subcontractor may demand payment

39. Under the NC Prompt Pay Act, if a general contractor receives owner payment for a subcontractor's work on a Monday and the seven-day payment clock begins running, what is the latest date by which the GC must pay the subcontractor to avoid interest liability?

- A. The following Thursday — day four after the Monday receipt
- B. The following Saturday — day six after the Monday receipt
- C. The following Tuesday — day eight, allowing one extra day for banking processing
- D. The following Monday — seven calendar days after receipt, which is the statutory deadline

40. A general contractor argues that it should not be required to pay a subcontractor because the subcontractor's work has caused delays that are resulting in \$30,000 in anticipated liquidated damages from the owner. The GC withholds the subcontractor's entire \$48,000 application to cover the potential damages. Under the NC Prompt Pay Act, which of the following most accurately describes this situation?

- A. The GC may withhold the full \$48,000 — anticipated liquidated damages are a legitimate basis for withholding the entire application
- B. The GC may withhold only the portion of the application that is reasonably related to the documented damage claim — withholding amounts not directly connected to a specific, good-faith dispute violates the Prompt Pay Act's requirement to pay undisputed amounts promptly
- C. The GC may withhold the full application until the owner's liquidated damages determination is finalized
- D. The GC has no withholding rights — the subcontract's pay terms control and must be honored regardless of damage claims

# BUSINESS AND LAW SIMULATION

## EXAM 3 — ANSWER KEY

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1. D — Advertising with a classification title higher than the license actually held is misleading to the public and potential clients — it misrepresents the contractor's authorized project value limits and may induce owners to award projects the contractor is not licensed to perform. The NCLBGC treats misleading advertising as grounds for disciplinary action because the licensing classification system exists specifically to inform the public about each contractor's authorized scope and financial qualifications.
2. B — The NCLBGC's subpoena authority applies to Board investigations and disciplinary proceedings involving licensee conduct — the proceedings within the Board's own jurisdiction. The Board does not have authority to issue subpoenas in civil payment disputes, building code enforcement matters, or workers' compensation proceedings. This subpoena power is essential for the Board to effectively investigate complaints and compel production of contracts, financial records, and project documentation relevant to disciplinary matters.
3. C — The Unlimited Building Contractor classification requires audited financial statements — not reviewed or compiled statements — because the unlimited project value creates the greatest potential exposure to owners and subcontractors. An audit provides a higher level of assurance than a review because the CPA actually tests and verifies the underlying financial data rather than performing only analytical procedures. The Board's requirement for audited statements is mandatory and cannot be satisfied by a lesser level of financial statement preparation.
4. A — The NCLBGC may consider the qualifier's history with any previously licensed entity when evaluating a new application, including the circumstances of a prior revocation. Forming a new LLC to circumvent the consequences of a revocation is a strategy the Board specifically has authority to address — the qualifier's fitness to hold a license is evaluated as an individual, not just as an entity. The Board may deny a new license if the conduct underlying the prior revocation reflects on the qualifier's present fitness.
5. D — A civil judgment for construction fraud is an independent basis for NCLBGC disciplinary action — paying the civil judgment satisfies the injured party's claim but does not eliminate the Board's separate authority to protect the public from a licensee who has been found to have committed fraud. The Board's disciplinary authority exists to protect future consumers, not merely to punish past misconduct. A contractor who has committed fraud poses an ongoing risk that the Board is specifically empowered to address through license sanctions.

6. B — Owner-builders who perform work on property they personally own may qualify for an exemption from the general contractor licensing requirement under specific circumstances defined in NC Chapter 87. This exemption recognizes that the licensing requirement primarily targets commercial contractors performing work for compensation on others' property. The exemption has specific conditions and does not apply to developers who build for resale or to situations where the owner-builder uses the exemption as a cover for unlicensed commercial activity.
7. A — The NC Building Contractor license is tied to the legal entity and the qualifying individual — when the sole proprietor dies, the license terminates. The surviving spouse has no automatic qualification rights regardless of ownership interest. To continue the contracting business under a new license, the spouse must pass both required licensing examinations, meet the financial requirements for the desired classification, and apply for a new license in their own name or in the name of a new entity they control.
8. C — NC Chapter 87 and NCLBGC rules require that the contractor's license number appear in all contracts for construction work in addition to all advertising. This requirement ensures that every written construction contract identifies the licensed entity performing the work, allowing owners and subcontractors to verify license status and providing a clear record of the licensing obligation at the time of contracting. Missing license numbers in contracts is a compliance issue that can be discovered during Board investigations.
9. D — The financial limitation on an Intermediate Building Contractor license — \$1,500,000 per single project — applies to the total contract value including all change orders. When change orders would cause the total to exceed \$1,500,000, the contractor must upgrade to an Unlimited classification before executing those change orders. Proceeding without upgrading constitutes contracting above the authorized financial level, which exposes the contractor to Board disciplinary action and potentially affects enforceability of the contract.
10. A — The NC Governor appoints members of the NCLBGC according to the statutory composition requirements set forth in NC General Statutes Chapter 87. The Board's composition includes licensed general contractors and public members appointed to represent consumer interests. Understanding the Board's governance structure — including the appointment authority — is part of the licensing law knowledge tested on the Business and Law examination.
11. B — When a contractor receives a complaint notice from the NCLBGC, responding within the specified period with a thorough written response addressing each allegation with supporting documentation is the most appropriate and professionally sound course of action. Ignoring the notice, filing preemptive litigation, or relying solely on the contractor's track record without engaging the substance of the complaint all increase the risk of adverse action. The Board's complaint process is the contractor's first opportunity to present their side before any disciplinary action is considered.

12. C — The licensing requirement under NC Chapter 87 applies to all general contracting work above the \$40,000 threshold regardless of who the owner is — government entities receive no special exemption from enforcement. A contractor performing unlicensed work for a county school system faces the same civil penalties and prohibition on recovering payment as for unlicensed work on private projects. In fact, performing unlicensed work on public projects may attract additional regulatory attention.
13. D — The continuing education requirement applies to all licensees equally — there is no waiver based on years of service, clean disciplinary record, or professional standing. The Board may deny renewal or impose conditions requiring completion of CE as a condition of renewal when the requirement has not been met. The rationale for CE applies as much to experienced contractors as to newer ones — staying current on licensing laws, safety requirements, and industry standards benefits all practitioners regardless of experience level.
14. A — Board disciplinary decisions are subject to judicial review by the NC Superior Court under the NC Administrative Procedure Act (NCAPA). A contractor who believes the Board's decision was legally incorrect, exceeded the Board's authority, or was not supported by substantial evidence may appeal to Superior Court within the time period specified by the NCAPA. The Superior Court reviews the administrative record and applies the appropriate standard of review to Board factual findings and legal conclusions.
15. C — A qualifier who is not genuinely and actively involved in the management of the licensed entity's contracting operations — particularly one who is routinely unreachable and disconnected from operations — may not legitimately serve as a bona fide qualifier under NCLBGC rules. The qualifier requirement exists to ensure that someone with demonstrated competency actually participates in the entity's work. An absent qualifier whose credentials are used without genuine involvement creates a license lending situation that the Board is empowered to address.
16. B — The qualifier must be a bona fide owner, officer, or managing employee of the licensed entity — the relationship requirement goes beyond merely holding a job title. A "project manager" who lacks genuine management authority over the entity's operations and decisions may not satisfy the qualifying relationship requirement. The Board evaluates whether the qualifier's role reflects the actual nature and extent of their authority and involvement, not merely the title assigned to them on paper.
17. A — NC Chapter 87 specifically addresses the practice of artificially splitting projects into multiple contracts below the \$40,000 threshold to evade the licensing requirement. Courts and the Board treat split contracts as a single project for licensing purposes when the work is part of a common construction project with a unified purpose. Contractors who engage in this practice face the same enforcement consequences as outright unlicensed contracting — including the prohibition on recovering payment.

18. C — An S corporation and a C corporation are separate legal entities under NC law even when the ownership, officers, qualifier, and operations are identical. Because NC contractor licenses are issued to specific legal entities, a change in corporate structure creates a new entity that must apply for its own license. Operating the new C corporation under the S corporation's license after the conversion constitutes operating without a license as the new entity — the same consequence as any other entity operating without proper licensing.
19. D — The NCLBGC's financial requirements for each license classification exist precisely to ensure contractors have the financial capacity to meet their obligations on projects authorized at that level. A contractor whose bonding capacity is insufficient for the required project bond may be signaling financial weakness that affects their ability to perform and pay subcontractors. While bonding limitations are a private business matter, they can reflect on the contractor's financial fitness relative to the Board's classification requirements and may warrant the contractor's own assessment of their readiness for the project.
20. B — For a new license application, the continuing education requirement — including the mandatory 2-hour Board-produced course — applies at the renewal stage, not as a prerequisite to initial license issuance. A new applicant who passes both required examinations and meets all financial requirements receives the license. The CE obligation begins accumulating during the first license period and must be completed before the license may be renewed at the end of that period. This structure gives new licensees the first full license period to complete their initial CE requirement.
21. A — The NC State Building Code applies statewide and governs all construction work regardless of whether a local government has the inspection infrastructure to enforce it. The absence of a local building department does not create a code-free zone — contractors are responsible for complying with the applicable code provisions on every project. Additionally, the NCLBGC licensing requirement is independent of local enforcement and applies statewide to all qualifying construction work.
22. C — When an owner receives a Notice of Claim of Lien on Funds, NC Chapter 44A requires the owner to withhold from any subsequent payment to the general contractor at least the amount of the claimed lien. The owner must protect the \$35,000 claim by withholding that amount from the pending draw — paying only \$165,000 to the GC and holding \$35,000 pending resolution of the subcontractor's claim. An owner who disburses funds in excess of the unencumbered amount becomes personally liable to the lien claimant for the amount improperly paid.
23. D — Serving the Notice of Claim of Lien on Funds on the property owner places the owner on notice of the subcontractor's potential lien rights, protecting the claimant's priority against subsequent payment disbursements. Without this notice, the owner might pay out all remaining contract funds to the general contractor in good faith, leaving no project funds available to satisfy the subcontractor's claim. The notice creates the legal obligation that prevents disbursement of

funds that would otherwise dissipate the subcontractor's security interest in the project payment stream.

24. B — Title insurance policies may cover mechanics' lien claims that were not disclosed at the time of closing and that fall within the policy's coverage terms. When the title insurer receives notice of a covered lien claim, it typically defends the claim on the owner's behalf and, if the lien is valid, satisfies it up to the policy limit. However, title insurance coverage for mechanic's liens varies by policy — owners should review their specific policy terms to understand the coverage provided. The insurer's involvement protects the owner from having to independently resolve the lien claim.
25. A — Under NC Chapter 44A, a lien agent must be a licensed title insurance company, a licensed title insurance agency, or an attorney licensed to practice law in North Carolina. These entities are specifically authorized as lien agents because they have the legal expertise, insurance, and professional infrastructure to administer the lien agent role effectively — receiving notifications from subcontractors and suppliers and maintaining records that protect all parties in the construction payment chain.
26. A — The last date of furnishing for lien calculation purposes is the last date the contractor actually performed labor or delivered materials that were genuinely part of the project scope — the last physical project activity. May 1 — the completion date of the contractor's last actual work on the project — is the last date of furnishing. The date of the owner's payment is not a project activity and does not extend or reset the furnishing period. Contractors must track the actual last work date carefully because the 120-day lien window runs from this date regardless of when invoices are submitted or paid.
27. D — Under the NC Little Miller Act, second-tier claimants — those without a direct contract with the prime contractor — must provide written notice of their payment bond claim within 90 days of the last date they furnished labor or materials to the project. This 90-day notice deadline is strictly enforced — missing it eliminates the payment bond remedy regardless of how valid the underlying claim is. The 90-day period is shorter than the 120-day private project lien filing deadline and requires careful tracking from the last furnishing date.
28. B — The last date of furnishing under NC Chapter 44A is calculated from the most recent date the claimant actually performed work, delivered materials, or provided services that were genuinely part of the project scope. Final cleanup, punch list work, final material deliveries, and warranty work all qualify as furnishing activities — provided they are legitimate project activities rather than manufactured visits designed artificially to extend the lien window. Courts look at whether the activity was a genuine project requirement, not merely a pretext to reset the clock.
29. C — Failure to provide required bonds on a public project meeting the Little Miller Act threshold is a material breach of the contract that entitles the school district to terminate the contract. Additionally, the contractor's failure to bond as contractually and statutorily required may be reported to the NCLBGC as evidence of conduct reflecting on the contractor's fitness and

competency — potentially supporting disciplinary action. Subcontractors and suppliers on the unbonded project also lose the Little Miller Act payment protections they were entitled to expect.

30. A — NC 811 law applies to all excavation in North Carolina without exception based on the identity of the excavator or the type of property. A residential property owner personally digging a fence post hole is performing excavation as defined by NC 811 law and must submit a locate request before digging. Underground utilities — gas lines, electrical, telecommunications, and water — are present in residential yards throughout North Carolina and can be struck at shallow depths. The no-exceptions rule makes NC 811 compliance predictable and comprehensive.
31. D — When a utility facility runs directly through a proposed construction area, the conflict must be formally resolved before any excavation begins in the affected area. The utility operator must be contacted to discuss relocation options, the structural engineer must be consulted about potential design adjustments, and a written plan for resolving the conflict must be in place before excavation proceeds. Beginning excavation while a known utility conflict exists — even carefully — creates unacceptable safety and legal risks that proper pre-excavation coordination is specifically designed to prevent.
32. B — Utility markings that have been destroyed by rain, equipment, or other disturbance are no longer valid locate information — the physical marks are what communicate utility locations to the excavating crew, and destroyed marks cannot be relied upon. A new locate request must be submitted to NC 811 so that utility operators can re-mark their facilities before excavation resumes. Proceeding based on memory, photographs, or GPS coordinates of destroyed marks does not satisfy NC 811 compliance requirements.
33. C — When an unmarked pipe or other underground facility is discovered during excavation — regardless of its apparent condition or abandonment status — the excavator must stop work at that location and contact NC 811 to report the find and request identification. Pipes that appear abandoned may still carry active utility services — gas lines that appear dormant may be under pressure, and telecommunications infrastructure may look unused but be operational. The discovery must be reported and the facility identified before excavation continues near it.
34. A — When a utility operator fails to respond to a NC 811 locate request within the three-business-day period, the excavator should contact NC 811 again before beginning excavation to attempt to reach the non-responding utility. Proceeding without any confirmation from a utility operator — even one that failed to respond — creates both safety risk and legal exposure if a facility belonging to that operator is subsequently struck. Documenting the attempted follow-up through NC 811 provides some legal protection but does not eliminate the obligation to make reasonable efforts to identify and avoid all underground utilities.
35. C — The NC SPCA does not provide absolute immunity from enforcement simply because a rainfall event exceeded the plan's design storm. However, a contractor who can demonstrate that BMPs were properly installed per an approved plan and consistently maintained in good condition

has a strong defense showing due diligence. The contractor must still respond promptly to repair any damage caused by the storm and implement additional protective measures to prevent further discharge. Courts and regulators look at the totality of the contractor's compliance efforts when evaluating penalty exposure.

36. B — Agricultural operations conducted in good faith — including tilling, planting, harvesting, and normal farm activities — are generally exempt from the NC SPCA's erosion control plan approval requirement. This exemption recognizes the economic importance of agriculture in North Carolina and the fact that established farming practices have their own inherent erosion management elements. However, the agricultural exemption does not extend to development grading or land clearing for non-agricultural purposes even on agricultural land — the activity must be genuinely agricultural in nature to qualify.
37. C — A stop-work order issued by DEMLR is a lawful regulatory order that must be complied with immediately regardless of whether the contractor agrees with its basis. The contractor's proper response is to comply with the order to stop work, then pursue the appropriate administrative review process — requesting a compliance conference with DEMLR, submitting evidence of current BMP adequacy, or pursuing formal administrative appeal if the order is believed to be unjustified. Ignoring a stop-work order creates additional violations and potentially criminal contempt exposure that compounds the original enforcement matter.
38. A — The language "shall pay within thirty (30) days of General Contractor's receipt of payment from Owner" is a classic pay-when-paid timing provision. Under NC law, this language delays the payment obligation until the owner pays but does not permanently extinguish it — if the owner never pays, the GC ultimately remains obligated to pay the subcontractor for completed work. To shift the risk of owner non-payment permanently to the subcontractor, the contract must use much more explicit language clearly stating that the subcontractor bears the risk of owner nonpayment under all circumstances.
39. D — The NC Prompt Pay Act's seven-day payment obligation is measured in calendar days — not business days. Seven calendar days after a Monday receipt means payment is due by the following Monday. Counting Sunday as a non-payment day or adding banking processing time is not recognized as an extension under the statute. The seven-day requirement is strict, and interest begins accruing automatically on the eighth day after receipt regardless of banking or processing explanations offered by the GC.
40. B — The NC Prompt Pay Act permits a contractor to withhold amounts that are genuinely and specifically in dispute — it does not authorize withholding entire applications when only a portion is disputed. The GC must make a reasonable, documented, good-faith determination of which amounts are actually at issue and pay the remainder promptly. Using a partial dispute as justification for withholding the entire application violates the Act and subjects the GC to automatic interest liability on the improperly withheld undisputed amounts from the day the seven-day payment deadline expires.