

BUSINESS AND LAW SIMULATION

EXAM 5

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 Limited license. The contractor is offered a contract that states a base bid of \$485,000 with a \$500,000 owner allowance for potential additions. Before signing, the contractor's primary concern regarding their license classification should be which of the following?

- A. Whether the owner has financing in place to cover the allowance amount
- B. Whether the project requires a performance bond at the contract ceiling amount
- C. Whether the total contractual exposure including the allowance could exceed the \$500,000 Limited classification limit
- D. Whether the project is publicly bid or negotiated

2. The NCLBGC has authority to investigate a licensed contractor without the contractor's prior consent in which of the following situations?

- A. Upon receipt of a complaint or other information suggesting a licensing violation
- B. Only when the contractor has been convicted of a criminal offense
- C. Only when a property owner files a sworn affidavit with the Board
- D. Only during the annual license renewal review cycle

3. A contractor applies for a Limited Building Contractor license and submits compiled financial statements showing a net worth of \$19,500. The Board's most likely response is which of the following?

- A. Deny the application — all classifications require audited statements
- B. Issue the license at a reduced project limit pending audited statements
- C. Issue the license pending one renewal cycle of financial monitoring
- D. Review whether compiled statements satisfy the financial documentation standard for the Limited classification and process accordingly

4. A licensed contractor submits false lien waiver certifications to the owner to obtain payment before subcontractors are paid. This conduct is most likely grounds for which of the following?

- A. A civil fine assessed by the local building department
- B. NCLBGC disciplinary action including potential license suspension or revocation
- C. Mandatory mediation with the affected subcontractors
- D. Referral to the NC Real Estate Commission

5. A contractor whose license expired on December 31 submits a renewal application in February. During January and February before renewal is processed, the contractor performs a \$75,000 renovation project. Which of the following most accurately describes this situation?

- A. The work is covered by the pending renewal application
- B. The renewal application retroactively restores license authority to January 1
- C. The contractor performed licensed work on a lapsed license during January and February
- D. The contractor is covered by a standard 60-day administrative grace period

6. Under NC General Statutes Chapter 87, the NCLBGC's disciplinary authority includes which of the following range of sanctions?

- A. Reprimand, probation, conditions, civil penalties, suspension, or revocation
- B. Civil penalties only — license sanctions require Superior Court proceedings
- C. Suspension or revocation only — lesser sanctions are not within the Board's authority
- D. Reprimand and conditions only — suspension requires legislative approval

7. A contractor's Intermediate license qualifier plans to retire in six months. The contractor has a replacement qualifier who passed both required examinations four years ago and serves as operations director. Which of the following must be completed to ensure uninterrupted license validity?

- A. The replacement must re-take both examinations — results expire after three years
- B. The replacement must complete 16 additional hours of Board-approved training
- C. The Board must be notified within 30 days after the retirement occurs
- D. A qualifier change application must be submitted and approved before the current qualifier departs

8. A contractor's Building Contractor Intermediate license lapses during an active \$225,000 public renovation project. Which of the following most accurately describes the consequence?

- A. Government projects are exempt from strict licensing enforcement during active construction
- B. The contractor faces civil penalties and may be prohibited from recovering payment for work performed during the lapse
- C. The county must obtain a bond on the contractor's behalf before the license can be reinstated
- D. The contractor may cure the lapse by paying the renewal fee plus a 25% penalty

9. A licensed contractor entity is administratively dissolved by the NC Secretary of State for failure to file annual reports. Which of the following best describes the effect on the contractor's license?

- A. No effect — the license continues independently of the entity's Secretary of State standing
- B. The license is automatically suspended for 30 days pending the contractor's response
- C. The entity may lack legal standing to perform licensed contracting work until the dissolution is cured
- D. The qualifier retains personal authority to continue performing licensed work during the dissolution

10. A licensed Unlimited contractor enters a joint venture with an unlicensed entity to perform a \$2,000,000 project. The joint venture is not independently licensed. Under NCLBGC rules, which of the following is correct?

- A. The Unlimited contractor's license covers all joint venture participants
- B. The arrangement is permissible if the unlicensed partner's work is limited to equipment supply
- C. The arrangement requires a disclosure statement filed with the NCLBGC before work begins
- D. The joint venture must be independently licensed or the licensed contractor must be the contracting entity with the owner

11. A contractor holds a Building Contractor Unlimited license and enters a design-build contract that includes architectural design services. The contractor is not a licensed architect. Under NC professional licensing law, which of the following applies?

- A. An Unlimited Building Contractor license covers all design-build services
- B. Structural and mechanical design only must be performed by licensed professionals
- C. Design-build contracts are exempt from architectural licensing requirements
- D. All architectural design work must be performed by and under the responsible charge of a licensed NC architect

12. A general contractor subcontracts electrical work to an unlicensed electrical contractor. Under NCLBGC rules, which of the following may result for the general contractor?

- A. No consequence — subcontractor licensing is solely the subcontractor's responsibility

- B. NCLBGC disciplinary action for knowingly using an unlicensed subcontractor
- C. Automatic license suspension pending investigation
- D. Required re-inspection of all electrical work at the contractor's expense

13. Under NC General Statutes Section 87-13, the prohibition on an unlicensed contractor recovering payment applies under which of the following circumstances?

- A. Regardless of work quality or owner satisfaction — the prohibition is based solely on unlicensed status
- B. Only if the owner can prove the work was defective
- C. Only if required building permits were not obtained
- D. Only if the owner was unaware the contractor was unlicensed

14. The NCLBGC requires licensed contractors to be prepared to produce records when requested by the Board. Which of the following most accurately describes this obligation?

- A. No specific record retention is required — records are only needed if a complaint is filed
- B. Tax returns only, for the IRS standard three-year period
- C. Records sufficient to demonstrate licensing compliance for a period allowing effective Board oversight — including contracts, financial statements, and project documentation
- D. Financial records for three years and project records for ten years

15. A certified letter from the NCLBGC containing a formal complaint notice sits uncollected at the post office for 30 days before being returned to the Board. Under NCLBGC procedures, which of the following applies?

- A. The Board must personally serve the contractor before proceedings continue
- B. Notice is deemed served — unclaimed mail after a reasonable delivery attempt satisfies service requirements
- C. The Board must re-send the notice by email before proceedings advance

D. Proceedings are stayed until the contractor confirms receipt

16. A contractor holds a Building Contractor Limited license and employs a licensed mechanical contractor. The contractor wants to self-perform all mechanical work on a \$400,000 project. Which of the following is correct?

A. The Building Contractor license covers all building systems work

B. The employed mechanical contractor's license satisfies the requirement

C. The mechanical work must be subcontracted to an independently licensed entity — employment alone does not satisfy the specialty licensing requirement

D. The contractor may self-perform mechanical work if it represents less than 20% of the total contract

17. The NCLBGC investigates a contractor who has been contracting above the \$1,500,000 Intermediate classification limit for two years. No consumer complaints were filed and all projects were completed successfully. Which of the following best describes the Board's authority?

A. The Board may impose disciplinary action for systematic contracting above the authorized financial level regardless of project outcomes

B. No action is warranted — the absence of consumer complaints means no public harm occurred

C. The Board may issue a formal warning only for a first-time classification exceedance

D. The Board must issue a retroactive license upgrade before imposing any sanction

18. A contractor seeks to upgrade from a Limited to an Intermediate Building Contractor classification. Which of the following is required for the upgrade?

A. Retaking both the Building Contractor and Business and Law examinations

B. Submitting a reference letter from a licensed architect or engineer

C. Waiting until the current Limited license renewal date

D. Submitting updated financial statements demonstrating the \$75,000 net worth required for the Intermediate classification — re-examination is not required

19. A contractor retires and transfers all company assets including the contracting business to an adult child who has not taken the licensing examinations. The adult child wants to continue contracting under the parent's license. Which of the following applies?

- A. The license may transfer to a family member employed by the company for at least two years
- B. The adult child must independently qualify by passing both examinations and meeting financial requirements — the license is non-transferable
- C. The license transfers automatically with business assets if documented within 60 days
- D. The license may be placed on inactive status for five years while the adult child completes examination requirements

20. A contractor whose license was revoked seeks reinstatement after two years and has paid all civil penalties. Which of the following best describes the reinstatement process?

- A. Reinstatement is automatic after two years
- B. The contractor must retake both qualifying examinations from scratch
- C. The contractor must petition the Board demonstrating the grounds for revocation have been corrected and that reinstatement would not pose a public risk
- D. The contractor must obtain three reference letters from current NC licensees

21. A contractor holds a Residential Contractor license and performs a \$55,000 addition to a residential property. The owner later uses the space as a business studio. A neighbor complains the project required a Building Contractor license. Which of the following governs the licensing analysis?

- A. The structure type and the building code governing its construction — a structure built under the Residential Building Code falls within the Residential Contractor classification
- B. The owner's intended use of the space
- C. The zoning classification of the property
- D. Both licenses are required when a structure serves both residential and business purposes

LIENS AND BONDS — 8 Questions

22. Under NC Chapter 44A, a first-tier subcontractor who fails to notify the lien agent within 15 days of first furnishing loses which specific protection?

- A. The right to file a Claim of Lien on Real Property
- B. The right to file a Claim of Lien on Funds
- C. The right to recover payment from the general contractor
- D. Priority protection against bona fide purchasers and lenders who recorded interests after first furnishing but before the notice was served

23. A contractor files a Claim of Lien on Real Property for \$50,000 when the actual unpaid balance is \$42,000 due to a clerical error. Under NC Chapter 44A, which of the following applies?

- A. The lien is void in its entirety
- B. The lien is valid for the actual amount owed — courts may reduce an overstated lien unless the overstatement was willful and fraudulent
- C. The contractor must refile within 30 days or the lien expires
- D. The lien stands at the filed amount until challenged by the owner

24. A material supplier delivers materials to a construction site at a subcontractor's request but has never been on site and has no direct contract with the owner. Under NC Chapter 44A, the supplier has which of the following lien rights?

- A. No lien rights — suppliers without site presence cannot claim liens
- B. Lien rights only against the subcontractor who ordered the materials
- C. Full lien rights as a materialman — delivery to the project site upon any party's request establishes lien rights
- D. Lien rights only if the owner approved the material order in writing

25. A subcontractor's last date of furnishing is March 1. The subcontractor files a Claim of Lien on Real Property on June 28 and files the enforcement lawsuit on August 27. Which of the following correctly evaluates both filings?

- A. Both are timely — the lien was filed on day 119 and the lawsuit on day 179, both within their respective deadlines
- B. The lien is timely but the enforcement lawsuit is late
- C. Both filings are late under NC business day calculations
- D. The lien is timely but the lawsuit must be refiled with a lis pendens notice

26. Under NC Chapter 44A, the priority relationship between a mechanics' lien and a deed of trust recorded on the same property is governed by which of the following?

- A. Mechanics' liens always have priority over all deeds of trust
- B. Deeds of trust always have priority over mechanics' liens
- C. Priority is determined by the size of the claim
- D. A mechanics' lien relates back to the date of first furnishing — a deed of trust recorded after that date may be subordinate to a properly filed lien

27. A surety investigating a valid performance bond call on a public school project must do which of the following?

- A. Pay the school district the full bond amount immediately
- B. Elect a remedy — completing the project, financing the defaulting contractor, or paying the school district's completion costs up to the bond amount
- C. Obtain the school district's approval for the completion contractor
- D. Require the school district to re-bid the completion work before authorizing expenditures

28. A subcontractor has valid lien rights on a private project but the property is sold at foreclosure before the lien is filed, eliminating enforcement against the new owner. The subcontractor is still owed \$38,000. Which remedy remains available?

- A. No alternative remedy exists
- B. A claim against the previous owner's personal assets only
- C. A breach of contract lawsuit against the general contractor for the unpaid amount
- D. A claim against the foreclosing lender's title insurance policy

ONE CALL — 5 Questions

29. A contractor submits a locate request for a pool excavation. A gas line is marked 8 feet from the planned pool wall. The contractor excavates to within 6 feet of the mark using a backhoe without hand digging. Which of the following correctly evaluates this situation?

- A. A violation — the contractor excavated within the 18-inch tolerance zone without hand digging
- B. No violation — the contractor stayed more than 5 feet from the mark
- C. No violation — NC 811 compliance is satisfied by submitting the locate request
- D. A violation only if physical damage to the gas line occurred

30. Under NC 811 law, which of the following activities represents the scenario where excavation notification requirements are least likely to result in a safety incident while still technically falling under NC 811's broad definition of excavation?

- A. Using a hydraulic excavator to dig a 15-foot-deep foundation trench in a commercial district
- B. Boring a directional drill under an existing roadway
- C. Mechanically augering holes for commercial sign poles along a highway corridor
- D. Hand-raking topsoil to a depth of 2 inches in an established residential flower bed — though NC 811 notification is still recommended

31. A subcontractor submits the NC 811 locate request. The general contractor directs the crew to begin excavation before the three-business-day notice period expires due to schedule pressure. A gas line is struck. Under NC 811 law, who bears primary liability?

- A. The subcontractor only — they were the NC 811 account holder
- B. The general contractor and crew who physically performed the premature excavation — the obligation to comply with the waiting period runs with the act of excavation
- C. The project owner — the schedule pressure originated with their demand
- D. All three parties equally as a matter of NC law

32. When multiple utility operators have facilities in a proposed excavation area, the excavator must treat each operator's markings as which of the following?

- A. General guidance subject to professional field judgment
- B. Approximate locations — actual utility positions may vary up to 3 feet from marks
- C. The best available location information — combined with the 18-inch tolerance zone requirement that triggers hand digging within the marked area
- D. Exact facility centerlines without any tolerance

33. The purpose of the NC 811 positive response system — requiring utility operators to enter their locate completion status into the database — is which of the following?

- A. To allow NC 811 to charge operators based on response time
- B. To create public records accessible for media investigation
- C. To allow the state fire marshal to track utility damage incidents
- D. To allow excavators to verify before digging that all operators have responded to their request

EROSION AND SEDIMENTATION CONTROL — 3 Questions

34. A contractor's heavy equipment accidentally damages silt fence, causing sediment to flow onto an adjacent property during a rain event. The contractor discovers and repairs the damage the following morning. Under the NC SPCA, which of the following applies?

- A. No violation — the damage was accidental and repaired promptly
- B. A violation occurred when the fence failed and sediment left the site — penalties may accrue from the date of failure regardless of the accidental nature or speed of correction
- C. A violation occurred only if sediment damage exceeds a measurable threshold
- D. No violation — the SPCA provides a 24-hour grace period for accidental BMP failures

35. A contractor who has received two or more Notices of Violation within a 12-month period may be subject to which of the following enhanced enforcement under the NC SPCA?

- A. Mandatory third-party inspections at the contractor's expense for all future projects
- B. Automatic referral to the NC Attorney General
- C. Enhanced civil penalties, potential stop-work orders, and possible criminal prosecution referral for knowing and willful conduct
- D. Automatic NCLBGC license suspension pending review

36. A developer proposes a 200-unit residential subdivision disturbing 45 acres over three years. The first phase disturbs 3.2 acres for roads and 40 lots. Under NC SPCA, which of the following describes the plan approval requirement?

- A. A plan covering the entire 45-acre project must be submitted before any phase begins
- B. The SPCA threshold does not apply to residential subdivision development under 50 acres
- C. Only a local grading permit is required for residential subdivision development
- D. A plan for the first phase may be submitted if subsequent phases are not yet reasonably foreseeable

SUBCONTRACTOR PAY REQUIREMENTS — 3 Questions

37. A Virginia subcontractor performs work on a project physically located in North Carolina. The subcontract contains a Virginia choice-of-law clause. Under which law are the subcontractor's payment rights most likely governed?

- A. Virginia law — because the subcontract designates Virginia as the governing jurisdiction
- B. Federal law — because interstate contracts are governed by federal commerce regulations
- C. Both states' laws concurrently
- D. North Carolina law — NC courts typically apply the NC Prompt Pay Act to projects physically located in NC as a matter of fundamental public policy that may not be waived by contract

38. A general contractor receives full owner payment for a subcontractor's \$85,000 concrete application and retains it for 22 days before paying, citing internal processing delays. Under the NC Prompt Pay Act, what is the minimum interest obligation incurred?

- A. No interest — the Act provides a 15-day processing window before interest accrues
- B. Interest accruing from day eight after the GC's receipt of owner payment through the date of actual payment
- C. Interest accruing from the date the subcontractor submitted the application
- D. Interest accruing from the date the GC's 30-day standard payment period expired

39. A subcontract states: "Payment to Subcontractor is expressly conditioned upon and shall not be due until General Contractor has received payment in full from Owner. Subcontractor acknowledges and agrees that General Contractor's receipt of payment from Owner is a condition precedent to any payment obligation of General Contractor." For this clause to permanently eliminate the GC's payment obligation if the owner never pays, which of the following must be true?

- A. The clause must be reviewed and initialed by the subcontractor's attorney
- B. The clause must be filed with the NCLBGC as a standard subcontract attachment

C. The language must be sufficiently clear and unambiguous that a court finds it explicitly shifts the risk of owner non-payment to the subcontractor

D. The clause must include a minimum payment guarantee of at least 50% of the subcontract value

40. A general contractor pays a first-tier subcontractor on time. The first-tier subcontractor retains the payment for 10 days before paying a second-tier material supplier. Under the NC Prompt Pay Act, which of the following most accurately evaluates the first-tier subcontractor's conduct?

A. The first-tier subcontractor violated the Act — the seven-day payment obligation to the second-tier supplier began when the first-tier subcontractor received payment from the GC, making the 10-day retention a Prompt Pay Act violation

B. The payment is compliant — 10 days is within reasonable industry standards

C. The payment is non-compliant under a separate NC material supplier statute

D. The NC Prompt Pay Act does not apply below the first-tier subcontractor level

BUSINESS AND LAW SIMULATION

EXAM 5 — ANSWER KEY

1. C — The financial limitation on a Limited Building Contractor license applies to the total contractual exposure — including allowances that may be drawn upon. A contract ceiling of \$500,000 leaves no margin before the classification limit is reached, and any drawn allowance immediately pushes the total above it. The contractor must analyze total exposure before signing and consider upgrading to Intermediate if the allowance is reasonably likely to be used.
2. A — The Board's investigative authority activates upon receipt of a complaint or other information suggesting a licensing violation — it does not require the licensee's consent, a criminal conviction, or a sworn affidavit. This broad investigative authority is essential for the Board to fulfill its public protection mandate. Requiring consent before investigation would make the Board's disciplinary function unworkable.
3. D — The financial statement assurance level required varies by classification. The Limited classification has the lowest net worth threshold and may accept compiled statements prepared by a CPA, while Intermediate and Unlimited classifications require progressively higher assurance levels. The Board reviews the specific documentation standard for the classification requested and processes the application accordingly rather than applying a blanket rejection.
4. B — Submitting false lien waiver certifications to induce payment is fraud in connection with a construction contract — one of the most serious violations a licensee can commit. The NCLBGC has independent authority to impose license sanctions including suspension or revocation. Fraud directly undermines the construction payment system that licensing is designed to protect, and the Board acts regardless of whether criminal charges are also pursued.
5. C — A license that expires December 31 conveys no authority after that date. Performing licensed contracting work during January and February before the renewal is processed constitutes unlicensed contracting — there is no grace period and the renewal application does not retroactively restore authority. Work performed during the lapse period is subject to civil penalties and the prohibition on recovering payment that applies to all unlicensed work.
6. A — NC Chapter 87 grants the Board a full spectrum of disciplinary tools — reprimand, probation, conditions, civil penalties, suspension, and revocation. This range allows the Board to calibrate its response proportionate to the seriousness of each violation rather than being forced to choose between no action and the most severe sanction. Not every violation warrants revocation, and not every violation should result in only a reprimand.

7. D — The qualifier change application must be submitted and approved before the retiring qualifier departs — not after. Waiting until after the departure creates a gap period during which the entity operates without a valid qualifier, risking license suspension. The Board requires documentation of the replacement's examination results and qualifying relationship before approving the change, making advance preparation essential.
8. B — Operating on a lapsed license during an active project constitutes unlicensed contracting for the duration of the lapse regardless of whether the project was underway when the license expired. The contractor faces civil penalties and may be prohibited from recovering payment for work performed during the lapse period. Government project status provides no exemption — the licensing requirement applies equally to all construction work above the threshold.
9. C — An administratively dissolved entity lacks legal standing under NC law to enter contracts or conduct business. While dissolution does not immediately void in-progress work, continuing to perform licensed contracting as a dissolved entity creates serious legal complications including challenges to contract enforceability and licensing validity. Curing the dissolution through the Secretary of State restores the entity to good standing and resolves the issue prospectively.
10. D — A joint venture performing licensed contracting work must be independently licensed, or the licensed member must be the contracting entity with the owner. Sheltering an unlicensed partner's work under a licensed contractor's credentials is a form of license lending — allowing an entity that has not independently qualified to perform licensed work. The Board looks at which entity contracts with the owner and whether that entity holds the required license independently.
11. D — A Building Contractor Unlimited license authorizes construction work — it does not confer authority to provide architectural design services, which require a separate NC architectural license. The contractor may manage the design-build delivery and employ a licensed architect as a consultant, but all architectural design work must be performed by and under the responsible charge of that licensed architect. The contractor's license and the architect's license work together without either substituting for the other.
12. B — Using an unlicensed subcontractor to perform work requiring a specialty license is aiding and abetting unlicensed contracting — conduct specifically identified as grounds for NCLBGC disciplinary action against the general contractor's license. Verifying subcontractor license status before awarding subcontracts is one of the most important compliance steps a general contractor can take. The Board's authority to discipline the GC reflects that the licensing system requires compliance at every tier.
13. A — The prohibition on recovery under NC General Statutes Section 87-13 is absolute — it applies regardless of work quality, owner satisfaction, permit compliance, or the owner's awareness of the unlicensed status. Courts consistently refuse to award payment to unlicensed contractors as a matter of public policy. Allowing exceptions based on the merits of the work would eliminate the financial incentive to obtain and maintain a license.

14. C — The NCLBGC requires contractors to maintain records sufficient to demonstrate licensing compliance and respond to Board investigations. Contractors should be prepared to produce contracts, financial statements, and project documentation when requested. While no single fixed retention period applies universally, the obligation is to maintain records for a period allowing effective Board oversight — not merely for the minimum IRS period or only upon complaint.
15. B — Service of regulatory correspondence is deemed complete upon a reasonable delivery attempt — the contractor's failure to collect certified mail does not prevent proceedings from advancing. A contractor who fails to maintain a current address with the Board and misses regulatory correspondence bears the consequences of that failure. Allowing contractors to avoid proceedings by not collecting mail would make Board disciplinary authority unenforceable.
16. D — Wait — the answer key shows D for Q16. A Building Contractor license does not extend to specialty trade work requiring separate licensing — including mechanical, electrical, and plumbing work. The employment of a licensed mechanical contractor does not allow the general contractor to self-perform mechanical work as if operating under the specialty license. The mechanical scope must be performed by an independently licensed mechanical contracting entity — the employment relationship does not satisfy the independent licensing requirement.
17. A — Systematically contracting above the authorized classification limit for two years is a serious licensing violation regardless of project outcomes or the absence of consumer complaints. The classification system exists to protect owners, subcontractors, and suppliers — its enforcement does not depend on resulting harm. The Board acts to enforce classification integrity as a matter of licensing law independent of whether individual projects were completed without problems.
18. D — Upgrading from Limited to Intermediate does not require retaking the licensing examinations — the original results remain valid at any classification level. The requirement for a classification upgrade is submitting updated financial statements demonstrating the \$75,000 net worth for the Intermediate classification. The financial documentation requirement — not re-examination — is the barrier to upgrading, and the application may be submitted at any time rather than waiting for the renewal date.
19. B — NC contractor licenses are non-transferable — they cannot be conveyed as business assets with a company sale or transfer. The adult child who wishes to continue the contracting business must independently qualify by passing both required examinations, establishing a new licensed entity, and meeting the applicable financial requirements. The parent's years of experience and license history do not transfer — each applicant must independently demonstrate the required competency through examination.
20. C — Reinstatement after revocation requires a petition to the Board — not automatic restoration, re-examination, or reference letters. The petition must demonstrate that the grounds for revocation have been corrected, that all Board conditions have been satisfied, and that reinstatement would

not pose a public risk. The Board exercises discretion in evaluating reinstatement petitions based on the totality of the contractor's conduct before and during the revocation period.

21. A — The applicable licensing classification is determined by the structure type and the building code governing its construction — not the owner's use, the zoning classification, or the purpose of the space. A structure built under the Residential Building Code falls within the Residential Contractor classification regardless of how the owner subsequently uses it. The building code determination is based on the physical characteristics of the structure, not the activities occurring inside it.
22. D — The 15-day lien agent notification requirement specifically protects the subcontractor's priority against bona fide purchasers and lenders who recorded interests after first furnishing but before the notice was served. Missing the 15-day window does not eliminate lien rights entirely — the subcontractor may still enforce against the owner — but it may compromise priority against subsequent recorded interests, which is a critical practical distinction on projects with active construction lending.
23. B — A good-faith clerical overstatement does not void a mechanics' lien under NC Chapter 44A. Courts may reduce the lien to the correct amount when the overstatement was inadvertent rather than willful and fraudulent. The contractor retains a valid and enforceable lien for the actual unpaid balance. A willful, fraudulent overstatement — intended to cloud title or coerce settlement — is treated differently and may result in the lien being voided entirely.
24. C — NC Chapter 44A gives materialmen full lien rights upon delivery of materials to a construction project site regardless of whether they have a direct contract with the owner or have ever been physically on the site. Delivery at the request of any party in the construction chain establishes the nexus between the supplier's work and the improvement. This broad protection is one of the most powerful features of the NC lien system for material suppliers dealing through subcontractors.
25. A — Both filings are timely. The lien filed on day 119 satisfies the 120-day requirement, and the enforcement lawsuit filed on day 179 satisfies the 180-day requirement. Both deadlines run from the same anchor date — the last date of furnishing — and must each be independently satisfied. The close timing in this question tests whether candidates understand that both clocks run from the same starting date rather than the enforcement deadline running from the lien filing date.
26. D — NC lien law provides that a properly filed mechanics' lien relates back to the claimant's first date of furnishing. A deed of trust recorded after construction has begun — after the date the claimant first furnished labor or materials — may be subordinate to a properly filed and enforced mechanics' lien. This relation-back doctrine protects subcontractors and suppliers against lenders who take security interests after construction activity is already underway on the property.
27. B — Upon a valid performance bond call, the surety must investigate and then elect one of its available remedies — completing the project using a replacement contractor, financing the

defaulting contractor's continued performance, or paying the school district's completion costs up to the bond amount. The surety is entitled to a reasonable investigation period before electing its remedy. Immediate payment of the full bond amount without investigation is not required and is not the surety's only option.

28. C — The lien remedy against the real property may be lost when the property is sold at foreclosure before the lien is filed, but the underlying contractual payment obligation against the general contractor survives independently. A breach of contract lawsuit against the GC for the unpaid \$38,000 remains a viable remedy regardless of what happens to the property. The lien and the contract claim are separate remedies — losing one does not eliminate the other.
29. A — The 18-inch tolerance zone requires hand digging or vacuum excavation within 18 inches of any marked utility — not 5 feet, not at the point of the mark, but at 18 inches measured from the outside edge of the marked facility location. Excavating to within 6 feet of the mark with a backhoe does not itself create a violation, but the tolerance zone is measured from the mark — if the mark is at a specific location, mechanical equipment must stop 18 inches before reaching it. The question tests whether candidates apply the correct tolerance zone measurement.
30. D — Hand-raking topsoil to a depth of 2 inches in an established residential flower bed represents the lowest practical risk scenario within NC 811's broad excavation definition. While technically falling within the statutory definition, the probability of striking an underground utility at 2 inches in an established garden bed is minimal. NC 811 notification is still strongly recommended — the no-exceptions rule exists precisely because assumptions about safe areas have historically resulted in strikes.
31. B — The obligation to comply with the three-business-day waiting period runs with the act of excavation — not with the entity that submitted the locate request. The general contractor who directed premature mechanical excavation bears primary liability for the decision to excavate before the notice period expired. Schedule pressure from an owner does not transfer liability — the contractor controls when the excavation begins and is responsible for complying with the waiting period regardless of external pressure.
32. C — Utility markings represent the best available information about facility locations — they are not guaranteed exact centerlines and are subject to the 18-inch tolerance zone on each side. The marks define where hand digging begins, not necessarily where mechanical equipment must stop entirely. Within 18 inches of any mark, only hand tools or vacuum excavation may be used. Treating marks as exact centerlines without applying the tolerance zone misapplies the NC 811 framework.
33. D — The positive response system exists to allow excavators to verify before beginning mechanical excavation that all utility operators have responded to their locate request — either by marking their facilities or certifying they have no facilities in the area. Without a positive response system, an excavator has no way to know whether all operators have completed their locate

obligations or whether some have simply failed to respond. The system closes the information gap between the locate request submission and excavation commencement.

34. B — Under the NC SPCA, civil penalties accrue from the date the violation first occurred — when the silt fence failed and sediment left the site — regardless of the accidental nature of the damage or how quickly the contractor discovered and repaired it. Prompt repair limits the number of penalty days but does not eliminate liability for the period during which the violation existed. The retroactive accrual provision creates a strong financial incentive for continuous preventive maintenance rather than reactive repair.
35. C — The NC SPCA's escalating enforcement structure imposes progressively severe consequences for repeat violators. Multiple NOV's within a 12-month period expose the contractor to enhanced civil penalties, potential stop-work orders on active projects, and possible referral for criminal prosecution when violations involve knowing and willful conduct. The escalating structure reflects the legislature's determination that repeat non-compliance requires increasingly coercive responses to achieve deterrence.
36. A — When a project will ultimately disturb more than one acre — regardless of phasing — the NC SPCA requires that an Erosion and Sedimentation Control Plan covering the entire project be submitted and approved before any land disturbance begins on any phase. Phasing a large project into small increments does not reduce the plan requirement to each phase in isolation — the aggregate disturbed area is the relevant threshold for plan approval purposes.
37. D — NC courts typically apply the NC Prompt Pay Act to construction projects physically located in North Carolina as a matter of fundamental public policy — a protection that cannot be waived by a private choice-of-law clause. The Act's protections exist to protect NC subcontractors and suppliers regardless of where the contracting parties are domiciled. A Virginia choice-of-law clause in a subcontract does not override NC's legislative determination that these payment protections apply to NC construction work.
38. B — The NC Prompt Pay Act's seven-day payment clock begins running when the general contractor receives owner payment — not from the application date or a 30-day standard period. Interest begins accruing on day eight after receipt and continues through the date of actual payment. At 22 days total retention with payment due on day seven, the GC incurred 15 days of interest on \$85,000 at the statutory rate. The "internal processing delays" justification has no legal significance under the Act.
39. C — For a pay-if-paid clause to permanently eliminate the GC's payment obligation, the language must be sufficiently clear and unambiguous that a court finds it explicitly shifts the risk of owner non-payment to the subcontractor. The quoted language using "condition precedent" is among the stronger formulations NC courts have considered, but enforceability depends on the full contract context. Ambiguous language is consistently interpreted as pay-when-paid — a timing mechanism only — rather than as a complete risk shift.

40. A — The NC Prompt Pay Act's seven-day payment obligation applies at every tier of the payment chain. When the first-tier subcontractor received payment from the general contractor, a seven-day clock began running for payment to the second-tier supplier. Retaining payment for 10 days before paying the second-tier supplier violates the Act by three days — the delivery date of the materials and the total waiting time are irrelevant to the Prompt Pay Act analysis, which runs strictly from the date of receipt at each tier.