

BUSINESS AND LAW SIMULATION

EXAM 6

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 has held a Building Contractor Intermediate license for three years. The contractor wins a bid for a \$1,450,000 project. Midway through construction, the owner executes a series of change orders that push the total contract value to \$1,620,000. The contractor has not upgraded their license. Which of the following applies?

- A. The contractor may complete the project since the original contract was within the limit
- B. The contractor must obtain an Unlimited license before executing change orders that cause the total contract value to exceed \$1,500,000
- C. The contractor may complete the project if the change order work is subcontracted to an Unlimited licensee
- D. Change orders are excluded from the financial limitation calculation under NCLBGC rules

2. Under NCLBGC rules, the qualifying relationship requirement means a qualifier must be which of the following in relation to the licensed entity?

- A. A licensed attorney representing the entity in all Board matters
- B. A licensed architect of record on the entity's current project
- C. A licensed trade subcontractor regularly used by the entity
- D. A bona fide owner, officer, or managing employee with genuine operational involvement in the entity

3. A contractor holds a Building Contractor Unlimited license as a corporation. The corporation's sole qualifier and president dies unexpectedly. The corporation wants to continue operations. Which of the following is required?

- A. The corporation must obtain a new qualifier who passes both required examinations and has the required relationship to the entity before continuing licensed contracting work
- B. The corporation's vice president automatically assumes qualifier status upon the president's death
- C. The Board extends a 12-month grace period for corporations to replace a deceased qualifier
- D. The corporation may continue for 90 days while it identifies a replacement qualifier

4. A sole proprietor performs a \$55,000 commercial renovation without a Building Contractor license, claiming the work is exempt because it is a repair rather than new construction. Under NC Chapter 87, which of the following is correct?

- A. Repairs are exempt from licensing requirements regardless of value
- B. The exemption applies only to repairs valued under \$75,000
- C. Repairs, remodeling, and alterations above the \$40,000 threshold require a license — the exemption does not distinguish between new construction and repair work
- D. Repairs on commercial property are regulated by the local building department, not NCLBGC

5. A contractor's license is suspended by the NCLBGC for 60 days following a disciplinary hearing. During the suspension, the contractor's company continues to advertise construction services using the license number. Which of the following is the consequence?

- A. The advertising is permissible — the license number remains the contractor's even during suspension
- B. Advertising with a suspended license number may constitute additional violations and may extend or worsen the disciplinary consequences
- C. Advertising is permitted if the contractor discloses the suspension in the advertisement
- D. The NCLBGC has no authority over advertising during a suspension period

6. Under NC Chapter 87, the NCLBGC issues licenses to which of the following categories of Building Contractor classifications?

- A. Entry, Standard, and Premium — the three-tier classification system established in 2019
- B. Apprentice, Journeyman, and Master — mirroring the trade licensing classification structure
- C. Class A, Class B, and Class C — corresponding to project complexity levels
- D. Limited, Intermediate, and Unlimited — corresponding to maximum single-project dollar values

7. A contractor applies for a Building Contractor Limited license. The application shows the entity is a general partnership with two partners — neither of whom has passed the required licensing examinations. One partner holds a current license as a residential contractor in another state. Which of the following is required?

- A. At least one partner must pass both the Building Contractor and Business and Law examinations in North Carolina before the license will be issued
- B. The out-of-state residential contractor license satisfies the examination requirement through reciprocity
- C. Both partners must each independently pass both examinations before the partnership may be licensed
- D. The Board may waive the examination requirement if the partnership submits three years of project references

8. A licensed general contractor performs work on a project and is subsequently sued by a homeowner for construction defects. The court finds in favor of the homeowner and awards \$85,000 in damages. The contractor refuses to satisfy the judgment. Under NCLBGC authority, which of the following most accurately describes the Board's options?

- A. The Board must order the contractor to pay the judgment within 30 days
- B. The Board may enter a civil judgment against the contractor on the homeowner's behalf
- C. The Board may investigate the underlying conduct for evidence of incompetence or dishonesty that would support independent disciplinary action — but cannot directly enforce civil judgments
- D. The Board must suspend the license automatically upon receipt of a civil judgment

9. A contractor holds an Unlimited Building Contractor license. The contractor's entity is a single-member LLC. The sole member — who is also the qualifier — transfers 100% of their membership interest to a third party who has not passed the required licensing examinations. Which of the following most accurately applies?

- A. No action is needed — the license belongs to the LLC entity, which continues under new ownership
- B. The transfer of ownership to an unqualified person may jeopardize the license — the qualifier's relationship to the entity must be genuine, and a qualifying relationship requires more than simply listing the qualifier on paper while actual control belongs to an unqualified third party
- C. The third-party purchaser automatically becomes the qualifier upon acquiring ownership
- D. The Board must approve the ownership transfer before it takes effect

10. Under NC Chapter 87, which of the following most accurately describes the consequence when a contractor performs work above the \$40,000 threshold while holding an expired license?

- A. The contractor may collect payment but must pay a civil fine equal to 5% of the contract value
- B. The contractor is subject to a formal warning on the first offense and civil penalties only on repeat offenses
- C. The license renewal retroactively cures any period of lapse when submitted within 90 days
- D. The contractor faces civil penalties and is prohibited from recovering payment for work performed during the lapse — the same consequences as a contractor who never held a license

11. A contractor licensed at the Limited classification enters into a \$480,000 contract for a commercial building renovation. The project requires a \$500,000 general liability insurance certificate. The contractor's current GL policy limits are \$300,000 per occurrence. Which of the following most accurately describes the situation?

- A. The contractor has a contractual compliance problem — the required insurance level is not met — that must be resolved before commencing work, though it is a contract issue rather than a direct NCLBGC licensing violation
- B. The contractor must obtain Board approval before obtaining additional insurance coverage

- C. The NCLBGC requires all Limited licensees to carry at least \$500,000 in GL coverage
- D. Insurance requirements are entirely separate from licensing and do not affect the contractor's authority to perform the work

12. A complaint filed with the NCLBGC alleges that a contractor submitted a fraudulent pay application to a public owner. The contractor denies the allegation. Under NCLBGC procedures, which of the following occurs next?

- A. The Board immediately suspends the license pending the outcome of the investigation
- B. The Board refers the matter to the NC Attorney General before opening an investigation
- C. The Board investigates the complaint — gathering evidence, interviewing relevant parties, and determining whether the facts support proceeding to a formal disciplinary hearing
- D. The Board issues a formal reprimand automatically upon receipt of a complaint involving a public project

13. A contractor performed licensed work for a 14-month project. Their Building Contractor license was valid for the first 6 months but lapsed and was not renewed for the remaining 8 months. Under NC Chapter 87, which of the following most accurately describes the contractor's ability to recover payment?

- A. The contractor may recover payment for all work since the license was valid when the contract was executed
- B. The contractor may be prohibited from recovering payment for work performed during the 8-month lapse period — the prohibition applies to the unlicensed period even if the work itself was competently performed
- C. The contractor may recover all payment since the owner accepted the work without objection
- D. The contractor may recover all payment because the license lapse was unintentional

14. Under NCLBGC rules, when a licensed entity undergoes a change in its legal structure — for example from a partnership to a corporation — which of the following is required?

- A. Submit an amendment form to update the entity type on the existing license

- B. No action is needed if the qualifier and ownership remain unchanged
- C. Submit a transition letter signed by all partners and corporate officers
- D. Apply for a new license as a new legal entity — the change in legal structure creates a new entity that must independently qualify for licensure

15. A contractor holds a Building Contractor Intermediate license. The contractor's qualifier passes away. The entity's operations manager — who has not taken the licensing examinations — manages the company for several months while recruiting a replacement qualifier. During this period the company bids and wins two projects. Which of the following most accurately describes the company's situation?

- A. The company may be operating without a valid qualifier — bidding and contracting for licensed work during this period may constitute unlicensed contracting and subjects the entity to disciplinary action
- B. The company has a 90-day automatic grace period after a qualifier's death before violations occur
- C. The operations manager's management experience satisfies the qualifying relationship requirement temporarily
- D. The company may continue operating provided it notifies the Board within 30 days of the qualifier's death

16. Under NCLBGC rules, a contractor's license number must appear in which of the following locations?

- A. On the contractor's vehicle registration and business tax filings only
- B. On the contractor's surety bond certificate only
- C. In all advertising and in all written contracts for licensed construction work
- D. On building permit applications only — advertising and contracts are not required to display the number

17. A contractor who holds a Limited Building Contractor license performs a \$450,000 commercial renovation. The contractor also performs \$75,000 in landscaping and irrigation work on the same project site under a separate contract with the same owner. The total value of all work performed for this owner on this site is \$525,000. Which of the following most accurately applies?

- A. The total value is irrelevant — each contract is evaluated independently for licensing purposes
- B. The landscaping and irrigation work does not require a Building Contractor license and can be performed separately regardless of total value
- C. The contractor must disclose both contracts to the NCLBGC before beginning the landscaping scope
- D. If the separate contracts are part of a single construction undertaking, the Board may treat them as a single project for licensing purposes — and the combined value may exceed the Limited classification limit

18. A licensed contractor is found by an NCLBGC investigation to have systematically abandoned projects — starting work, collecting deposits, then disappearing without completing the work or refunding deposits. Which of the following disciplinary action is most appropriate for this pattern of conduct?

- A. A formal written reprimand with a 60-day remediation period
- B. License revocation — systematic project abandonment and theft of deposits represents the most serious category of conduct warranting the Board's most severe sanction
- C. Mandatory completion of 40 additional hours of continuing education
- D. A \$2,500 civil penalty per occurrence

19. Under NCLBGC rules, a contractor who is a member of a limited liability company (LLC) may qualify the LLC for a Building Contractor license provided which of the following conditions is met?

- A. The qualifying member has passed both required examinations and is a bona fide owner, officer, or managing member of the LLC with genuine operational involvement
- B. The qualifying member holds at least 51% of the LLC's membership interests
- C. The qualifying member has been a member of the LLC for at least two years before qualification
- D. All members of the LLC must collectively pass the required examinations

20. A contractor who has been disciplined by the NCLBGC for abandoning a project enters into a new contract for a \$350,000 commercial project two months after receiving a formal reprimand. The Board receives a complaint that the contractor has again stopped work without justification on the new project. Which of the following best describes the Board's likely response compared to the first incident?

- A. The Board must apply the same range of sanctions as the first offense — prior discipline cannot be considered in the current proceeding
- B. The Board has no authority to act on a second complaint until the first disciplinary matter is fully concluded
- C. The Board may consider the prior discipline as an aggravating factor — repeat misconduct after a Board sanction typically results in more severe disciplinary action than the first offense
- D. The Board must refer the second complaint to the NC Attorney General for criminal prosecution before holding a hearing

21. A licensed Building Contractor performs work that requires an electrical permit. The contractor's project manager pulls the electrical permit and supervises the electrical rough-in, which is performed by unlicensed workers without an electrical contractor's oversight. Which of the following most accurately describes the licensing issue?

- A. The general contractor may supervise all permit-required work under their Building Contractor license
- B. The project manager's permit authority satisfies the electrical licensing requirement
- C. Obtaining the permit is sufficient — the Board has no oversight over specialty trade performance
- D. The electrical work must be performed by or under the direct supervision of a licensed electrical contractor — the Building Contractor license does not authorize supervision of electrical work

LIENS AND BONDS — 8 Questions

22. A subcontractor serves a Notice of Claim of Lien on Funds on the general contractor for \$32,000. The general contractor subsequently receives a \$250,000 draw from the owner and pays it out entirely to other subcontractors without withholding the \$32,000 claim. Which of the following most accurately describes the consequence?

- A. The general contractor has no liability — the lien on funds affects only future payments received after the lawsuit is filed
- B. The general contractor becomes directly and personally liable to the subcontractor for the \$32,000 — disbursing funds in the face of a properly served Notice of Claim of Lien on Funds exposes the GC to personal liability for the amount improperly disbursed
- C. The subcontractor must file a Claim of Lien on Real Property before the GC faces any personal liability
- D. The GC's liability is limited to the pro-rata share of the \$32,000 relative to the total draw amount

23. Under NC Chapter 44A, the Claim of Lien on Real Property filed with the clerk of superior court must be signed and verified by which of the following parties?

- A. The claimant or their authorized agent — the person asserting the lien signs and verifies the claim under oath
- B. The property owner — who must acknowledge the lien before it is recorded
- C. The general contractor — who must co-sign all subcontractor lien filings
- D. A licensed NC attorney — non-attorney lien filings are not permitted under NC Chapter 44A

24. An owner pays the general contractor in full for a completed private project. Three weeks later a subcontractor files a Claim of Lien on Real Property for \$28,000. The owner had a lien agent designated throughout the project. The subcontractor never notified the lien agent. Which of the following most accurately describes the lien's status?

- A. The lien is valid — the owner's payment to the GC has no effect on the subcontractor's lien rights
- B. The lien is automatically extinguished when the owner pays the GC in full
- C. The lien may have reduced enforceability against the owner — failure to notify the lien agent may affect the subcontractor's priority against subsequent interests including the owner's payment in good faith to the GC
- D. The lien is fully enforceable — lien agent notification is optional for subcontractors who file within 120 days

25. Under the NC Little Miller Act, a first-tier subcontractor with a direct contract with the prime contractor must file a lawsuit on the payment bond within which of the following periods after the last date of furnishing?

- A. 90 days
- B. 180 days
- C. Six months
- D. One year

26. A general contractor on a private project submits a Claim of Lien on Real Property for unpaid work and simultaneously serves a Notice of Claim of Lien on Funds on the owner and the construction lender. The construction lender is not a party to the construction contract. Which of the following most accurately describes whether the lien on funds may be served on the lender?

- A. No — the lien on funds may only be served on parties who have a direct contract with the project
- B. Serving the lender with the notice is a recognized protective practice — construction lenders who control project disbursements may be served to protect the claimant's interest in loan funds flowing through the payment chain
- C. Yes — but only if the lender is also the owner of the property being improved
- D. No — the lien on funds applies only at the owner-to-contractor level of the payment chain

27. A material supplier delivers steel to a fabricator's shop where it is cut and shaped into custom structural members. The fabricated members are then delivered to and incorporated into a construction project. The supplier has never been paid for the raw steel. Under NC Chapter 44A, the supplier's lien rights against the construction project attach when?

- A. When the fabricated members are incorporated into the improvement — the supplier's lien rights in NC generally attach upon the materials becoming part of the completed project
- B. When the raw steel is delivered to the fabricator's shop
- C. When the fabricator delivers the finished members to the project site
- D. When the supplier invoices the fabricator for the raw steel

28. A general contractor files a Claim of Lien on Real Property and an enforcement lawsuit within the applicable deadlines. The owner files for bankruptcy before the lawsuit is resolved. Which of the following most accurately describes the effect of bankruptcy on the lien?

- A. Bankruptcy automatically discharges all mechanics' liens against the debtor's property
- B. The enforcement lawsuit is immediately dismissed upon bankruptcy filing without any further proceedings
- C. The automatic stay in bankruptcy halts the lien enforcement action — the claimant must seek relief from the stay or file a proof of claim in the bankruptcy proceeding to protect their lien rights
- D. The lien is converted automatically to an unsecured claim upon the owner's bankruptcy filing

ONE CALL — 5 Questions

29. A contractor completes a NC 811 locate request and receives all utility markings. The project is delayed by weather and the ticket expires before excavation begins. The contractor's supervisor directs the crew to begin excavation anyway, reasoning that utilities were clearly marked and their locations are known. Which of the following applies?

- A. The excavation is compliant — the supervisor's field knowledge of utility locations satisfies the NC 811 intent
- B. Excavation may not begin on an expired ticket — a new locate request must be submitted and new markings obtained before any excavation begins
- C. The expired ticket may be extended by contacting NC 811 by phone to confirm the original markings remain valid
- D. Excavation may begin if the crew proceeds at reduced speed and uses hand tools throughout

30. Under NC 811 law, which of the following parties bears responsibility for the accuracy of the utility location marks placed in response to a locate request?

- A. The NC 811 center — as the administrator of the notification system
- B. The excavating contractor — who must independently verify all marked locations before digging

C. The property owner — as the party ultimately responsible for utilities on their land

D. The utility operator who placed the marks — the operator is responsible for the accuracy of their own facility location marks within the standard tolerance zone

31. A contractor is excavating in an area where three utility operators have marked facilities. The contractor uncovers a conduit that appears to belong to a fourth utility not represented in any of the locate responses. The conduit is damaged before the crew can stop the equipment. Which of the following best describes the liability situation?

A. The contractor bears no liability — all required notification steps were followed and the fourth utility failed to respond

B. The utility operator who failed to respond to the locate request bears primary responsibility for the damage — a utility operator who fails to respond to a valid locate request and whose facilities are subsequently damaged faces liability for failing to fulfill the statutory marking obligation

C. Liability is split equally between the excavator and the non-responding utility

D. The NC 811 center bears primary liability for failing to include the fourth utility in the notification

32. A contractor submits a locate request and all utilities are marked. On the third day of excavation, a gas line is struck. Investigation reveals the line was marked accurately but the crew used a backhoe to excavate within 6 inches of the marked centerline without switching to hand tools at 18 inches. Which of the following correctly describes this situation?

A. The contractor complied with NC 811 law — a locate request was submitted and the marks were present

B. The line was marked outside the tolerance zone — the utility operator may bear liability for a misplaced mark

C. The contractor violated the tolerance zone requirement — mechanical excavation must stop at 18 inches from the marked facility and hand tools must be used from that point inward

D. No violation occurred because the line was struck during active excavation within the locate ticket's validity period

33. Under NC 811 law, which of the following most accurately describes what an excavator must do after completing excavation and backfilling a trench — with respect to the existing locate ticket — if additional excavation is needed at the same location 20 days later?

- A. The original ticket remains valid for 30 days total — no new request is needed within that window
- B. The excavator may reference the original ticket if the utility marks are still visible
- C. The original ticket is valid only for the original work period and location — a new locate request must be submitted for the new excavation activity regardless of location familiarity
- D. The excavator must obtain written permission from the utility operators before reopening the same trench

EROSION AND SEDIMENTATION CONTROL — 3 Questions

34. A contractor grading a 1.5-acre commercial site installs silt fence, a stabilized construction entrance, and a temporary sediment trap as specified in the approved plan. An inspector visits and observes that a section of silt fence has been overtopped by concentrated flow and sediment has reached the adjacent property line but has not entered a stream. Which of the following most accurately describes this situation under NC SPCA enforcement?

- A. No violation — the BMP was installed correctly and the overtopping was caused by a storm event
- B. No violation — sediment must reach a stream or waterway before a violation occurs
- C. No violation — the approved plan was followed and all specified BMPs were installed
- D. A violation may exist — if the BMP system was inadequate to control sediment under foreseeable conditions, the contractor may be cited regardless of whether the sediment reached a stream

35. Under the NC SPCA, which of the following most accurately describes when a contractor must submit a revised Erosion and Sedimentation Control Plan to the approving agency?

- A. The project scope changes in a way that materially affects the approved plan — including expansion of disturbed area, relocation of BMPs, or changes to drainage patterns that the original plan did not address
- B. A Notice of Violation is received — plan revision is required only as part of the NOV response

- C. The project duration extends beyond the original approved construction schedule
- D. Any change order is executed that affects any aspect of site work

36. Under the NC SPCA, a contractor who willfully and knowingly violates the Act — as opposed to negligently or accidentally — may be subject to which of the following consequence beyond civil penalties?

- A. No additional consequence — the SPCA provides only civil penalties regardless of intent
- B. No additional consequence — criminal prosecution for environmental violations requires a separate federal proceeding
- C. Criminal prosecution under NC law — the SPCA provides for criminal penalties for knowing and willful violations in addition to civil penalties
- D. Mandatory suspension of all active Erosion Control Plans statewide pending investigation

SUBCONTRACTOR PAY REQUIREMENTS — 3 Questions

37. A general contractor receives payment from the owner on a Monday. The GC pays the first-tier subcontractor on the following Wednesday — nine days after receipt. Under the NC Prompt Pay Act, which of the following most accurately describes this payment?

- A. The payment complied with the Act — Wednesday of the following week is within a reasonable payment window
- B. The payment was two days late — interest accrued on days eight and nine after the GC's receipt of owner payment
- C. The payment was compliant — the Act provides a 10-day window for processing and payment
- D. The payment was compliant — the clock runs from the subcontractor's invoice date, not the GC's receipt of owner payment

38. A subcontract includes the following provision: "Subcontractor shall not be entitled to payment until Owner has paid General Contractor, and if Owner fails to pay General Contractor for any reason whatsoever, Subcontractor shall have no claim against General Contractor for such unpaid amounts." A North Carolina court reviewing this clause would most likely do which of the following?

- A. Enforce the clause as written — parties may freely contract for any payment arrangement
- B. Enforce the clause as a timing provision only — not as a permanent risk shift
- C. Void the entire subcontract as contrary to public policy
- D. Analyze whether the language is sufficiently clear and unambiguous to constitute an enforceable pay-if-paid risk-shifting provision — if yes, enforce it; if the language is ambiguous, construe it as pay-when-paid

39. A general contractor disputes 100% of a subcontractor's \$60,000 pay application, claiming all work is defective. The GC's own project superintendent's daily logs note that 80% of the subcontractor's work — valued at \$48,000 — was inspected and approved without comment over the prior three weeks. Under the NC Prompt Pay Act, which of the following most accurately describes the GC's withholding?

- A. The GC may withhold the full \$60,000 — any dispute over the application permits full withholding
- B. The GC must pay the \$48,000 that was previously documented as accepted and undisputed — only the genuinely disputed \$12,000 may be withheld
- C. The GC may withhold the full application for 30 days while completing a formal quality review
- D. The subcontractor must initiate mediation before the GC is required to release any portion of the application

40. Under the NC Prompt Pay Act, interest on late payments accrues at which of the following rates?

A. The federal funds rate plus 2% annually

B. 18% per annum — the standard rate under NC usury law

C. The rate established by the NC Prompt Pay Act — currently set at a specific statutory rate that applies to all late payments at every tier of the construction payment chain from the day after the seven-day deadline expires

D. The prime rate as published in the Wall Street Journal on the date the payment became overdue

BUSINESS AND LAW SIMULATION

EXAM 6 — ANSWER KEY

1. B — The Intermediate classification's \$1,500,000 limit applies to the total contract value including all approved change orders. When change orders push the total above \$1,500,000, the contractor must upgrade to Unlimited before executing those change orders — proceeding without upgrading constitutes contracting above the authorized financial level and is grounds for Board disciplinary action.
2. D — A qualifier must be a bona fide owner, officer, or managing employee with genuine operational involvement in the licensed entity. The qualifying relationship requirement is substantive — not merely nominal — and the Board examines whether the qualifier actually participates in managing the entity's contracting operations rather than simply appearing on paperwork.
3. A — When a corporation's sole qualifier dies, the entity has no valid qualifier supporting its license and must obtain a new qualifier before continuing licensed contracting work. The new qualifier must pass both required examinations and establish the required qualifying relationship to the entity — there is no automatic transfer of qualifier status and no grace period for corporations.
4. C — NC Chapter 87 defines general contracting to include construction, repair, remodeling, alteration, and demolition — the licensing requirement does not distinguish between new construction and repair work. Any single project above the \$40,000 threshold requiring a general contractor's supervision requires the appropriate Building Contractor license regardless of whether the work is new construction or repair.
5. B — Using a suspended license number in advertising during the suspension period may constitute additional violations that compound the original disciplinary consequences. A suspended license conveys no authority to contract or advertise for licensed work — continuing to advertise as if the license is active misrepresents the contractor's current legal authority and may result in extended or additional sanctions.
6. D — The NCLBGC issues Building Contractor licenses in three classifications — Limited, Intermediate, and Unlimited — corresponding to maximum single-project dollar values of \$500,000, \$1,500,000, and no limit respectively. These three classifications and their corresponding financial qualification requirements are among the most fundamental and frequently tested concepts on the Business and Law examination.

7. A — At least one member of the partnership must pass both the NC Building Contractor trades examination and the Business and Law examination before the partnership may be licensed. An out-of-state residential contractor license does not satisfy NC's examination requirements through reciprocity — the NC examinations test knowledge specific to NC licensing law, building code, and trade practice. Every NC license requires at least one NC-qualified individual.
8. C — The NCLBGC's authority is focused on licensing sanctions — not civil enforcement. The Board may investigate the underlying conduct for evidence of incompetence or dishonesty supporting independent disciplinary action, but it cannot order a contractor to pay a civil judgment or enter its own monetary judgment on behalf of an injured homeowner. Payment of civil judgments is enforced through the courts — not through the Board.
9. B — The qualifying relationship requires the qualifier to have genuine operational involvement in the entity — not merely to be listed on paper while actual control belongs to an unqualified party. A transfer of 100% ownership to an unqualified third party creates a situation where the qualifier's relationship to the entity may no longer be genuine, potentially jeopardizing the license. The Board examines the substance of the qualifying relationship, not just the paperwork.
10. D — Operating on an expired license carries the same consequences as never having held a license — civil penalties and prohibition on recovering payment for work performed during the lapse. The license renewal process does not retroactively cure the lapse period. Contractors who discover a lapse mid-project face the serious consequence that work performed during the lapse may be uncompensable.
11. A — The insurance shortfall is a contractual compliance problem — the contractor has agreed to provide a \$500,000 certificate but currently has only \$300,000 in coverage. This must be resolved by obtaining the required coverage before work begins. While insurance requirements are set by contract rather than directly by the NCLBGC, performing work in breach of the insurance requirement creates liability exposure for the contractor and may reflect on fitness if the matter reaches the Board.
12. C — Upon receiving a complaint, the Board's standard process is to investigate — gathering evidence, reviewing project records, and interviewing relevant parties — before determining whether the facts support proceeding to a formal disciplinary hearing. No automatic suspension, immediate referral, or presumptive reprimand occurs upon complaint receipt. The investigation phase protects both the public and the licensee by ensuring decisions are based on evidence rather than allegations alone.
13. B — The prohibition on recovering payment under NC General Statutes Section 87-13 applies to work performed during periods of unlicensed status — including periods when a previously valid license has lapsed. A contractor who performed competent work for eight months without a valid license may be prohibited from recovering payment for that portion of the project regardless of

work quality or owner acceptance. The prohibition is based on licensed status during performance, not the merits of the work itself.

14. D — A change in legal structure — from a partnership to a corporation, from an LLC to a corporation, or any other fundamental change — creates a new legal entity that must apply for its own license. NC contractor licenses are entity-specific and non-transferable. The new entity cannot simply amend the existing license — it must independently qualify through a new application demonstrating examination results, qualifying relationship, and financial compliance.
15. A — When a qualifier dies and the entity continues bidding and contracting without a replacement qualifier, the entity may be operating without valid licensing support — constituting unlicensed contracting during the period without a qualifier. Bidding and winning two projects while operating without a qualifier compounds the exposure. The Board requires prompt action — notification and replacement, not a waiting period during which licensed work continues.
16. C — NCLBGC rules require the contractor's license number to appear in all advertising for construction services and in all written contracts for licensed construction work. These dual requirements ensure that both potential clients encountering advertising and parties executing contracts can identify the licensed entity and verify its current license status with the Board.
17. D — NC Chapter 87 addresses artificial contract splitting — dividing what is substantively a single construction undertaking into multiple contracts to keep each below the licensing threshold or financial limitation. When the Board determines that separate contracts are part of the same construction project for the same owner on the same site, it may aggregate the values for licensing purposes. The \$75,000 landscaping contract and the \$450,000 renovation contract on the same site for the same owner may be treated as a single \$525,000 project.
18. B — Systematic project abandonment combined with theft of customer deposits represents the most serious category of contractor misconduct — it involves both incompetence and dishonesty that directly harms consumers. License revocation is the appropriate response to a pattern of conduct that has demonstrated the contractor's unfitness to hold a license and inability to fulfill basic contractual obligations. A reprimand or fine does not adequately protect future consumers from a contractor with this pattern of behavior.
19. A — A qualifying member of an LLC must have passed both required licensing examinations and must be a bona fide owner, officer, or managing member of the LLC with genuine operational involvement. The ownership percentage alone does not determine qualifying status — the qualifier's actual management role and involvement in the entity's contracting operations is the substantive requirement. A majority ownership interest without genuine operational involvement does not satisfy the bona fide relationship standard.
20. C — The Board may consider prior disciplinary history as an aggravating factor when evaluating a new complaint. Repeat misconduct after a Board sanction demonstrates that the prior discipline did not achieve its corrective purpose — supporting more serious sanctions in the current matter.

The escalating response to repeat misconduct reflects the Board's authority to protect the public from contractors who continue harmful conduct after being given an opportunity to correct it.

21. D — A Building Contractor license authorizes general construction management but does not extend to specialty trade work requiring separate licensing — including electrical work. Electrical work must be performed by or under the direct supervision of a licensed electrical contractor. A project manager pulling a permit does not satisfy the electrical contractor licensing requirement — the permit authority and the licensing authority are separate legal requirements serving different purposes.
22. B — When a Notice of Claim of Lien on Funds is properly served, the receiving party must withhold at least the claimed amount from any subsequent disbursement. Disbursing the full \$250,000 without withholding the \$32,000 claim makes the GC directly and personally liable to the subcontractor for the improperly disbursed amount. This personal liability is one of the most powerful enforcement mechanisms in the NC lien on funds system.
23. A — A Claim of Lien on Real Property must be signed and verified by the claimant or their authorized agent — the party asserting the lien signs under oath affirming the accuracy of the claim. Owner acknowledgment, GC co-signature, and attorney involvement are not prerequisites for filing a Claim of Lien on Real Property in North Carolina. The claimant's verified signature is the essential formal requirement for the filing.
24. C — Failure to notify the lien agent within 15 days of first furnishing may affect the subcontractor's priority against subsequent interests — including the owner's good-faith payment to the GC. The subcontractor may retain lien rights against the property but the lien's practical enforceability may be compromised if the owner made payments without notice of the potential lien claimant. The lien agent system exists precisely to prevent this situation by giving owners notice of who has potential claims before payments are made.
25. D — Under the NC Little Miller Act, a first-tier subcontractor — one with a direct contract with the prime contractor — has one year from the last date of furnishing to file a payment bond lawsuit. This one-year period is the statute of limitations for first-tier bond claims. Missing this deadline permanently bars the payment bond claim regardless of the validity of the underlying payment obligation.
26. B — Serving a Notice of Claim of Lien on Funds on a construction lender who controls project disbursements is a recognized protective practice under NC Chapter 44A. Construction lenders who receive and disburse project funds are parties whose disbursement decisions affect the claimant's ability to collect. Notifying the lender of the lien on funds protects the claimant's interest in loan proceeds that would otherwise flow to the GC without awareness of the outstanding claim.
27. A — Under NC Chapter 44A, a material supplier's lien rights generally attach when the materials become part of the completed improvement — incorporation into the project is the triggering event for lien attachment. Delivery to an intermediate fabricator's shop, completion of fabrication, or

delivery of finished members to the site are not themselves sufficient — the materials must be incorporated into the building before the supplier's lien rights attach against the real property.

28. C — The automatic stay in bankruptcy halts all collection actions against the debtor including mechanics' lien enforcement lawsuits. The claimant must seek relief from the automatic stay in the bankruptcy court or file a proof of claim in the bankruptcy proceeding to protect their secured position. Failing to take appropriate action in the bankruptcy case risks losing the lien's priority as a secured claim against the property.
29. B — An expired locate ticket is not a valid basis for excavation — the utility markings placed in response to an expired ticket are no longer reliable information about current underground utility positions. A new locate request must be submitted and fresh markings obtained before any excavation begins. The supervisor's field knowledge of utility locations does not substitute for the current, operator-verified locate information that the NC 811 system provides.
30. D — The utility operator who places marks in response to a locate request is responsible for the accuracy of their own facility location information within the standard tolerance zone. The NC 811 center facilitates notification but does not mark utilities or bear responsibility for mark accuracy. The excavator, property owner, and NC 811 center do not bear responsibility for the accuracy of marks placed by individual utility operators in response to specific locate requests.
31. B — A utility operator who fails to respond to a valid NC 811 locate request and whose facilities are subsequently struck during excavation bears primary responsibility for the damage resulting from that failure. The operator's statutory obligation is to respond — either by marking their facilities or certifying no facilities exist. Failure to respond deprives the excavator of the information needed to avoid the facility, and the consequences of that failure fall primarily on the non-responding operator.
32. C — NC 811 law requires mechanical excavation to stop at 18 inches from any marked facility — from that point inward, only hand tools or vacuum excavation may be used to safely expose the utility. Submitting a locate request and having marks present does not permit unrestricted mechanical excavation throughout the marked area. The tolerance zone requirement specifically addresses how to excavate near marked utilities, not just whether a locate request was submitted.
33. C — An NC 811 locate ticket is valid for 15 days from the date the marks were placed — it covers the specific excavation activity for which it was requested. When excavation resumes 20 days after the original work, the ticket has expired and a new locate request must be submitted regardless of the excavator's familiarity with the location. Utility infrastructure can change, and marks can be disturbed — fresh locates protect both the excavator and the utilities.
34. D — Under the NC SPCA, a violation may exist when the BMP system fails to control sediment under foreseeable conditions — including significant rainfall events that an adequately designed system should accommodate. A contractor whose BMPs were insufficient for the site conditions may be cited even if the approved plan was nominally followed. The SPCA's goal is actual

sediment control — compliance with a plan is important but does not immunize against violations when the plan proves inadequate.

35. A — A revised Erosion and Sedimentation Control Plan is required when the project scope changes in a way that materially affects the approved plan — including expansion of disturbed area, relocation of BMPs, or changes to drainage patterns. The original approval covers the scope described in the submitted plan — changes beyond that scope require a revised plan and new approval before additional disturbance begins. Proceeding with unapproved scope changes violates the SPCA regardless of whether the original plan was adequate for the original scope.
36. C — The NC SPCA provides for criminal penalties for knowing and willful violations in addition to civil penalties. A contractor who deliberately violates the Act — not merely through negligence or accident — may face criminal prosecution under NC law. This criminal provision reflects the legislature's determination that intentional disregard for erosion control requirements that damage NC's water quality deserves consequences beyond civil fines.
37. B — The NC Prompt Pay Act requires payment within seven calendar days of the GC's receipt of owner payment. Payment on the ninth day means the GC was two days late — interest accrued on day eight and day nine. The Act does not provide a processing window or a 10-day grace period. Interest begins accruing automatically on the eighth day regardless of internal processing explanations.
38. D — NC courts analyze pay-if-paid clauses by examining whether the language is sufficiently clear and unambiguous to constitute an enforceable risk-shifting provision. If the language clearly and explicitly states the intent to permanently relieve the GC of payment obligations if the owner never pays, the court will enforce it. If the language is ambiguous — even if it seems to condition payment on owner receipt — the court construes it as a timing provision only, leaving the GC ultimately obligated.
39. B — The NC Prompt Pay Act prohibits withholding undisputed amounts using a partial or manufactured dispute as cover. The GC's own superintendent logs documenting approval of 80% of the work constitute the GC's own evidence that \$48,000 is undisputed — that amount must be paid within seven days of receiving owner payment. Only the genuinely disputed \$12,000 may be withheld pending resolution. Using a whole-application withholding to dispute a portion violates the Act and creates interest liability.
40. C — The NC Prompt Pay Act establishes a specific statutory interest rate applicable to all late payments at every tier of the construction payment chain. This rate applies uniformly from the day after the seven-day deadline expires until the date of actual payment. The rate is set by the statute itself — it is not tied to the federal funds rate, the prime rate, or NC usury provisions. Candidates should confirm the current rate in the NASCLA guide for the most current statutory reference.