

NUVEEN ARIZONA DIVIDEND ADVANTAGE MUNICIPAL FUND 3  
Form N-CSRS  
April 09, 2007

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED MANAGEMENT INVESTMENT COMPANIES

Investment Company Act file number 811-21157  
-----

Nuveen Arizona Dividend Advantage Municipal Fund 3  
-----

(Exact name of registrant as specified in charter)

Nuveen Investments  
333 West Wacker Drive  
Chicago, IL 60606  
-----

(Address of principal executive offices) (Zip code)

Jessica R. Droeger  
Nuveen Investments  
333 West Wacker Drive  
Chicago, IL 60606  
-----

(Name and address of agent for service)

Registrant's telephone number, including area code: (312) 917-7700  
-----

Date of fiscal year end: July 31  
-----

Date of reporting period: January 31, 2007  
-----

Form N-CSR is to be used by management investment companies to file reports with the Commission not later than 10 days after the transmission to stockholders of any report that is required to be transmitted to stockholders under Rule 30e-1 under the Investment Company Act of 1940 (17 CFR 270.30e-1). The Commission may use the information provided on Form N-CSR in its regulatory, disclosure review, inspection, and policymaking roles.

A registrant is required to disclose the information specified by Form N-CSR, and the Commission will make this information public. A registrant is not required to respond to the collection of information contained in Form N-CSR unless the Form displays a currently valid Office of Management and Budget ("OMB") control number. Please direct comments concerning the accuracy of the information collection burden estimate and any suggestions for reducing the burden to Secretary, Securities and Exchange Commission, 450 Fifth Street, NW, Washington, DC 20549-0609. The OMB has reviewed this collection of information under the clearance requirements of 44 U.S.C. ss. 3507.

ITEM 1. REPORTS TO STOCKHOLDERS.

SEMIANNUAL REPORT January 31, 2007

Nuveen Investments  
Municipal Closed-End Funds

NUVEEN ARIZONA  
PREMIUM INCOME  
MUNICIPAL FUND, INC.  
NAZ

NUVEEN ARIZONA  
DIVIDEND ADVANTAGE  
MUNICIPAL FUND  
NFZ

NUVEEN ARIZONA  
DIVIDEND ADVANTAGE  
MUNICIPAL FUND 2  
NKR

NUVEEN ARIZONA  
DIVIDEND ADVANTAGE  
MUNICIPAL FUND 3  
NXE

NUVEEN TEXAS  
QUALITY INCOME  
MUNICIPAL FUND  
NTX

Photo of: Woman and man at the beach.

Photo of: A child.

DEPENDABLE,  
TAX-FREE INCOME BECAUSE  
IT'S NOT WHAT YOU EARN,  
IT'S WHAT YOU KEEP. (R)

Logo: NUVEEN Investments

Photo of: Woman

Photo of: Woman

Photo of: Man and child

NOW YOU CAN RECEIVE YOUR  
NUVEEN FUND REPORTS FASTER.

NO MORE WAITING.  
SIGN UP TODAY TO RECEIVE NUVEEN FUND INFORMATION BY E-MAIL.

It only takes a minute to sign up for E-Reports. Once enrolled, you'll receive an e-mail as soon as your Nuveen Investments Fund information is ready -- no

## Edgar Filing: NUVEEN ARIZONA DIVIDEND ADVANTAGE MUNICIPAL FUND 3 - Form N-CSRS

more waiting for delivery by regular mail. Just click on the link within the e-mail to see the report, and save it on your computer if you wish.

-----  
DELIVERY DIRECT TO  
YOUR E-MAIL INBOX  
-----

IT'S FAST, EASY & FREE:

WWW.INVESTORDELIVERY.COM  
if you get your Nuveen Fund dividends  
and statements from your financial  
advisor or brokerage account.

OR

WWW.NUVEEN.COM/ACCOUNTACCESS  
if you get your Nuveen Fund dividends  
and statements directly from Nuveen.

(Be sure to have the address sheet that  
accompanied this report handy. You'll need  
it to complete the enrollment process.)

Logo: NUVEEN Investments

Photo of: Timothy R. Schwertfeger

Timothy R. Schwertfeger  
Chairman of the Board

Chairman's  
LETTER TO SHAREHOLDERS

Once again, I am pleased to report that over the six-month period covered by this report your Fund continued to provide you with attractive monthly tax-free income. For more details about the management strategy and performance of your Fund, please read the Portfolio Managers' Comments, the Dividend and Share Price Information, and the Performance Overview sections of this report.

For some time, I've used these letters to remind you that municipal bonds can be an important building block in a well balanced investment portfolio. In addition to providing attractive tax-free monthly income, a municipal bond investment like your Fund may help you achieve and benefit from greater portfolio diversification. Portfolio diversification is a recognized way to try to reduce some of the risk that comes with investing. For more information about this important investment strategy, I encourage you to contact your personal financial advisor.

"IN ADDITION TO PROVIDING ATTRACTIVE TAX-FREE MONTHLY INCOME, A MUNICIPAL BOND INVESTMENT LIKE YOUR FUND MAY HELP YOU ACHIEVE AND BENEFIT FROM GREATER PORTFOLIO DIVERSIFICATION."

## Edgar Filing: NUVEEN ARIZONA DIVIDEND ADVANTAGE MUNICIPAL FUND 3 - Form N-CSRS

We also are pleased to be able to offer you a choice concerning how you receive your shareholder reports and other Fund information. As an alternative to mailed copies, you can sign up to receive future Fund reports and other Fund information by e-mail and the Internet. The inside front cover of this report contains information on how you can sign up.

We are grateful that you have chosen us as a partner as you pursue your financial goals, and we look forward to continuing to earn your trust in the months and years ahead. At Nuveen Investments, our mission continues to be to assist you and your financial advisor by offering investment services and products that can help you to secure your financial objectives.

Sincerely,

/s/ Timothy R. Schwertfeger

Timothy R. Schwertfeger  
Chairman of the Board

March 15, 2007

Nuveen Investments Municipal Closed-End Funds  
(NAZ, NFZ, NKR, NXE, NTX)

Portfolio Managers'  
COMMENTS

Portfolio managers Scott Romans and Cathryn Steeves review key investment strategies and the six-month performance of these five Nuveen Funds. Scott, who joined Nuveen in 2000, has managed the Arizona Funds since 2003. Cathryn, who has been with Nuveen since 1996, assumed portfolio management responsibility for NTX in 2004.

WHAT KEY STRATEGIES WERE USED TO MANAGE THE ARIZONA AND TEXAS FUNDS DURING THIS REPORTING PERIOD?

During this six-month period, we saw very little change in short-term interest rates, while longer-term rates continued to decline, resulting in further flattening of the yield curve. In this environment, we continued to emphasize a disciplined approach to duration management and yield curve positioning. As part of this approach, our purchases for the Funds' portfolios focused mainly on attractively priced bonds in the 15-year to 20-year part of the yield curve for the Arizona Funds and in the 25-year to 30-year range for NTX. We believed that, in those states, bonds across these parts of the curve generally offered better value and reward opportunities more commensurate with their risk levels. To help us maintain the Funds' durations within our preferred strategic range, we also selectively sold holdings with shorter durations, including pre-refunded bonds and bonds priced to short call dates, in all of the Funds.

We also continued to emphasize maintaining the Funds' weightings of lower credit quality bonds. As credit spreads continued to narrow during this period, we generally saw fewer interesting lower-rated credit offerings in the Texas market. However, Texas's status as the second largest state issuer of municipal debt (behind California) meant that we were still able to find opportunities to add lower-rated bonds, including a BBB rated long-term care credit, to NTX.

## Edgar Filing: NUVEEN ARIZONA DIVIDEND ADVANTAGE MUNICIPAL FUND 3 - Form N-CSRS

At the same time, Arizona's rapid population growth and resulting infrastructure needs provided a number of value opportunities in the lower-rated and non-rated sectors. During this period, we added four new positions in community development district bonds to NFZ, NKR, and NXE. The relative newness of this type of credit in the Arizona market, plus the state's continued growth, made these bonds attractive value prospects. Among the other lower-rated credits we purchased during this period were hospital bonds, increasing the exposure of all four Funds to the lower credit quality categories.

- 1 Duration is a measure of a bond's price sensitivity as interest rates change, with longer duration bonds displaying more sensitivity to these changes than bonds with shorter durations.

4

Apart from credit, we also continued to find value in single family housing bonds, which were added to all of the Arizona Funds.

During this period, we also purchased inverse floating rate trusts, a type of derivative financial instrument, in all of the Funds. The inverse floaters had the benefit of increasing the Funds' distributable income and bringing their durations closer to our preferred strategic target. In past shareholder reports, we have discussed the use of hedging as part of our duration management strategies. Going into this reporting period, NXE used forward interest rate swaps to reduce net asset value (NAV) volatility. We believed this strategy had been effective, and we removed the hedge in August 2006.

### HOW DID THE FUNDS PERFORM?

Individual results for these Arizona and Texas Funds, as well as relevant index and peer group information, are presented in the accompanying table.

#### TOTAL RETURNS ON NET ASSET VALUE\*

For periods ended 1/31/07

ARIZONA FUNDS	6-MONTH	1-YEAR	5-YEAR	10-YEAR
NAZ	3.30%	4.00%	5.90%	5.57%
NFZ	3.51%	4.48%	7.01%	NA
NKR	3.27%	4.34%	NA	NA
NXE	3.48%	4.83%	NA	NA
TEXAS FUND				
NTX	3.47%	4.67%	6.56%	6.24%
Lehman Brothers Municipal Bond Index2				
	3.06%	4.29%	5.11%	5.71%
Lipper Other States Municipal Debt Funds				

## Edgar Filing: NUVEEN ARIZONA DIVIDEND ADVANTAGE MUNICIPAL FUND 3 - Form N-CSRS

Average3	3.75%	4.98%	6.96%	6.57%
----------	-------	-------	-------	-------

---

\*Six-month returns are cumulative; returns for one year, five years, and ten years are annualized.

Past performance is not predictive of future results. Current performance may be higher or lower than the data shown. Returns do not reflect the deduction of taxes that shareholders may have to pay on Fund distributions or upon the sale of Fund shares.

For additional information, see the individual Performance Overview for your Fund in this report.

- 2 The Lehman Brothers Municipal Bond Index is an unleveraged, unmanaged national index comprising a broad range of investment-grade municipal bonds. Results for the Lehman Brothers Municipal Bond Index do not reflect any expenses.
- 3 The Lipper Other State Municipal Debt Funds category average is calculated using the returns of all closed-end funds in this category for each period as follows: 6 months, 46; 1 year, 46; 5 years, 27; and 10 years, 18. Fund and Lipper returns assume reinvestment of dividends.

5

For the six months ended January 31, 2007, the cumulative returns on NAV for all of the Funds outperformed the return on the Lehman Brothers Municipal Bond Index. All five of these Funds lagged the average return for the Lipper Other States peer group. Shareholders should note that the performance of the Lipper Other States category represents the overall average of returns for funds from 10 different states with a wide variety of municipal market conditions, making direct comparisons less meaningful.

Factors that influenced the Funds' returns during this period included duration management, allocations to lower-rated credits (or credit risk), sector weightings, advance refunding activity<sup>4</sup> and the use of financial leverage.

As the yield curve continued to flatten over the course of this period, bonds with shorter maturities generally underperformed longer bonds. Overall, NTX was strategically well positioned in terms of duration, with limited exposure to the shortest maturities and good exposure to those parts of the yield curve that performed well during this period. However, the durations of all four of the Arizona Funds, particularly those of NAZ and NKR, were shorter than our preferred strategic target, which meant that these Funds were not able to capture as much performance as funds with longer durations. As previously mentioned, we worked to address this situation by purchasing inverse floaters in all of these Funds during this period.

With bonds rated BBB or lower and non-rated bonds generally outperforming other credit quality sectors during this period, all of the Funds benefited from their weightings in lower-quality credits. The performance of this sector was largely the result of investor demand for the higher yields typically associated with lower-rated bonds, which drove up their value.

Among the lower-rated holdings making contributions to the Funds' returns for this period were health care (including hospitals) credits and industrial development revenue bonds, which ranked as the top performing revenue sectors in

the Lehman Brothers Municipal Bond Index. While lower-rated tobacco bonds also performed well during

- 4 Advance refundings, also known as pre-refundings or refinancings, occur when an issuer sells new bonds and uses the proceeds to fund principal and interest payments of older existing bonds. This process often results in lower borrowing costs for bond issuers.

6

this period, NAZ, NXE, and NTX held only small allocations (approximately 1% of their portfolios) of these bonds, and NFZ and NKR did not hold any tobacco bonds. In addition, NTX's exposure to the housing sector was a slightly negative factor in its six-month performance.

In the Arizona Funds, especially in NAZ, we continued to see positive contributions from advance refunding activity, which benefited these four Funds through price appreciation and enhanced credit quality. All four of the Arizona Funds also benefited from the credit quality upgrade of their holdings of Catholic Healthcare West bonds to A2/A from A3/A-.

On the other hand, holdings of older, previously pre-refunded bonds in the Funds tended to underperform the general municipal market, due primarily to their shorter effective maturities and higher credit quality. Among these five Funds, NAZ had the heaviest allocation of pre-refunded bonds going into this period.

Another factor in the six-month performance of these Funds, especially relative to that of the unleveraged Lehman Brothers Municipal Bond Index, was the use of financial leverage. While leverage can add volatility to a Fund's NAV and share price, this strategy can also provide opportunities for additional income and total return for common shareholders. The Funds' leveraging strategy positively impacted their results over this period.

7

#### Dividend and Share Price INFORMATION

As previously noted, all of the Funds in this report use leverage to potentially enhance opportunities for additional income for common shareholders. While the Funds' leveraging strategy continued to provide incremental income, the extent of this benefit was reduced during this period due to higher short-term interest rates, which increased the Funds' borrowing costs. The Funds' income streams were also impacted as the proceeds from older, higher-yielding bonds that matured or were called were reinvested into bonds currently available in the market, which generally offered lower yields. These factors resulted in one monthly dividend reduction in NKR and NTX and two in NFZ over the six-month period ended January 31, 2007. The dividends of NAZ and NXE remained stable during this period.

Due to normal portfolio activity, common shareholders of the following Funds received capital gains and net ordinary income distributions at the end of December 2006, as follows:

Edgar Filing: NUVEEN ARIZONA DIVIDEND ADVANTAGE MUNICIPAL FUND 3 - Form N-CSRS

	LONG-TERM CAPITAL GAINS (PER SHARE)	ORDINARY INCOME (PER SHARE)
NFZ	\$0.0614	\$0.0016
NKR	\$0.0405	--
NTX	\$0.0363	--

These distributions, which were generated by bond calls and sales of appreciated securities, had a slight negative impact on the earning power per common share of these Funds and were a minor factor in the common share dividend reductions noted above.

All of the Funds in this report seek to pay stable dividends at rates that reflect each Fund's past results and projected future performance. During certain periods, each Fund may pay dividends at a rate that may be more or less than the amount of net investment income actually earned by the Fund during the period. If a Fund has cumulatively earned more than it has paid in dividends, it holds the excess in reserve as undistributed net investment income (UNII) as part of the Fund's NAV. Conversely, if a Fund has cumulatively paid dividends in excess of its earnings, the excess constitutes negative UNII that is likewise reflected in the Fund's NAV. Each Fund will, over time, pay all of its net investment income as dividends to shareholders. As of January 31, 2007, all of the Arizona Funds had negative UNII balances for financial statement purposes and positive UNII balances, based on our best estimates, for tax purposes, while NTX had positive UNII balances for both financial statement and, based on our best estimates, for tax purposes.

8

At the end of the reporting period, the Funds' share prices were trading at premiums or discounts to their NAVs as shown in the accompanying chart:

	1/31/07 PREMIUM/DISCOUNT	6-MONTH AVERAGE PREMIUM/DISCOUNT
NAZ	-2.31%	-3.80%
NFZ	+1.48%	+4.15%
NKR	+0.53%	+1.76%
NXE	-1.59%	-4.45%
NTX	-4.22%	-3.45%

9

Nuveen Arizona Premium Income Municipal Fund, Inc.  
NAZ

Performance

OVERVIEW As of January 31, 2007



Edgar Filing: NUVEEN ARIZONA DIVIDEND ADVANTAGE MUNICIPAL FUND 3 - Form N-CSRS

Pie Chart:

CREDIT QUALITY

(as a % of total investments)

AAA/U.S. Guaranteed	78%
AA	6%
A	5%
BBB	9%
N/R	2%

Bar Chart:

2006-2007 MONTHLY TAX-FREE DIVIDENDS PER SHARE

Feb	0.058
Mar	0.055
Apr	0.055
May	0.055
Jun	0.051
Jul	0.051
Aug	0.051
Sep	0.051
Oct	0.051
Nov	0.051
Dec	0.051
Jan	0.051

Line Chart:

SHARE PRICE PERFORMANCE

Weekly Closing Price

Past performance is not predictive of future results.

2/01/06	14.24
	14.18
	14.19
	14.3
	14.25
	14.13
	14.26
	14.23
	14.19
	14.14
	14.2
	14.22
	14.1
	14.18
	13.75
	13.46
	13.64
	13.63
	13.62
	13.64
	13.29
	13.44
	13.2
	13.32
	13.3
	13.35
	13.44
	13.46
	13.82
	13.68
	13.767
	13.75

Edgar Filing: NUVEEN ARIZONA DIVIDEND ADVANTAGE MUNICIPAL FUND 3 - Form N-CSRS

	13.72
	13.69
	13.85
	13.8
	13.69
	13.8
	13.7
	13.7501
	13.86
	13.75
	13.88
	14.01
	13.92
	13.86
	13.9212
	14.2
	13.97
	13.75
	13.81
	13.81
	13.88
	13.94
	13.88
	13.85
1/31/07	13.93

FUND SNAPSHOT

Common Share Price	\$13.93
Common Share Net Asset Value	\$14.26
Premium/(Discount) to NAV	-2.31%
Market Yield	4.39%
Taxable-Equivalent Yield <sup>1</sup>	6.37%
Net Assets Applicable to Common Shares (\$000)	\$63,713
Average Effective Maturity on Securities (Years)	14.18
Leverage-Adjusted Duration	8.52

AVERAGE ANNUAL TOTAL RETURN  
(Inception 11/19/92)

	ON SHARE PRICE	ON NAV
6-Month (Cumulative)	4.02%	3.30%
1-Year	2.30%	4.00%
5-Year	2.43%	5.90%
10-Year	5.39%	5.57%

INDUSTRIES  
(as a % of total investments)

Tax Obligation/Limited	26.3%
U.S. Guaranteed	23.4%
Water and Sewer	16.0%
Education and Civic Organizations	9.9%
Health Care	8.3%
Utilities	8.1%
Other	8.0%

1 Taxable-Equivalent Yield represents the yield that must be earned on a fully taxable investment in order to equal the yield of the Fund on an after-tax basis. It is based on a combined federal and state income tax rate of 31.1%. When comparing this Fund to investments that generate qualified dividend income, the Taxable-Equivalent Yield is lower.

Nuveen Arizona Dividend Advantage Municipal Fund  
NFZ

Performance  
OVERVIEW As of January 31, 2007

Pie Chart:  
CREDIT QUALITY  
(as a % of total investments)

AAA/U.S. Guaranteed	69%
AA	12%
A	5%
BBB	10%
N/R	4%

Bar Chart:  
2006-2007 MONTHLY TAX-FREE DIVIDENDS PER SHARE<sup>2</sup>

Feb	0.069
Mar	0.069
Apr	0.069
May	0.069
Jun	0.0655
Jul	0.0655
Aug	0.0655
Sep	0.0615
Oct	0.0615
Nov	0.0615
Dec	0.0585
Jan	0.0585

Edgar Filing: NUVEEN ARIZONA DIVIDEND ADVANTAGE MUNICIPAL FUND 3 - Form N-CSRS

Line Chart:

SHARE PRICE PERFORMANCE

Weekly Closing Price

Past performance is not predictive of future results.

2/01/06	16.36
	16.35
	16.55
	16.74
	16.04
	15.78
	15.76
	16
	16.03
	15.91
	15.19
	15.1
	15.49
	15.8
	16.5
	16.05
	16.1
	15.9
	16.08
	15.66
	15.48
	15.35
	15.35
	15.57
	15.67
	16.02
	15.7
	15.9
	16
	16.45
	16.13
	16
	16.18
	15.97
	16
	16.1
	15.9
	16.22
	15.79
	15.54
	15.66
	15.7699
	15.85
	15.65
	15.51
	15.51
	15.7
	15.5
	15.29
	15.24
	15.045
	15.045
	15.35
	15.24
	14.98
	14.9
1/31/07	15.08

FUND SNAPSHOT

Common Share Price	\$15.08
Common Share Net Asset Value	\$14.86
Premium/(Discount) to NAV	1.48%
Market Yield	4.66%
Taxable-Equivalent Yield <sup>1</sup>	6.76%
Net Assets Applicable to Common Shares (\$000)	\$23,011
Average Effective Maturity on Securities (Years)	15.09
Leverage-Adjusted Duration	9.13

AVERAGE ANNUAL TOTAL RETURN  
(Inception 1/30/01)

	ON SHARE PRICE	ON NAV
6-Month (Cumulative)	-2.50%	3.51%
1-Year	-1.22%	4.48%
5-Year	5.63%	7.01%
Since Inception	5.97%	6.81%

INDUSTRIES

(as a % of total investments)

Tax Obligation/Limited	34.3%
Utilities	15.6%
Tax Obligation/General	13.7%
U.S. Guaranteed	11.7%
Water and Sewer	7.2%
Health Care	5.1%
Other	12.4%

1 Taxable-Equivalent Yield represents the yield that must be earned on a fully taxable investment in order to equal the yield of the Fund on an after-tax basis. It is based on a combined federal and state income tax

# Edgar Filing: NUVEEN ARIZONA DIVIDEND ADVANTAGE MUNICIPAL FUND 3 - Form N-CSRS

rate of 31.1%. When comparing this Fund to investments that generate qualified dividend income, the Taxable-Equivalent Yield is lower.

- 2 The Fund paid shareholders capital gains and net ordinary income distributions in December 2006 of \$0.0630 per share.

11

Nuveen Arizona Dividend Advantage Municipal Fund 2  
NKR

Performance

OVERVIEW As of January 31, 2007

Pie Chart:

CREDIT QUALITY

(as a % of total investments)

AAA/U.S. Guaranteed	67%
AA	8%
A	10%
BBB	11%
N/R	4%

Bar Chart:

2006-2007 MONTHLY TAX-FREE DIVIDENDS PER SHARE<sup>2</sup>

Feb	0.0685
Mar	0.0685
Apr	0.0685
May	0.0685
Jun	0.0645
Jul	0.0645
Aug	0.0645
Sep	0.0615
Oct	0.0615
Nov	0.0615
Dec	0.0615
Jan	0.0615

Line Chart:

SHARE PRICE PERFORMANCE

Weekly Closing Price

Past performance is not predictive of future results.

2/01/06	15.55
	15.55
	15.67
	15.74
	15.65
	15.41
	15.53
	15.21
	15.2
	15.15
	14.99
	15.4
	15.06
	15.3
	14.96
	14.96

	15.5
	15
	15.38
	15.15
	14.91
	15.1
	14.82
	14.75
	14.9
	15.17
	15.23
	15.27
	15.95
	15.9
	15.75
	15.9
	15.66
	15.55
	15.35
	15.55
	15.71
	16.28
	15.73
	15.55
	15.47
	15.7
	15.82
	15.24
	15.35
	15.35
	15.27
	15.23
	15.2
	15.19
	15.0307
	15.0307
	15.21
	14.94
	14.89
	15.0501
1/31/07	15.16

FUND SNAPSHOT

-----	
Common Share Price	\$15.16
-----	
Common Share	
Net Asset Value	\$15.08
-----	
Premium/(Discount) to NAV	0.53%
-----	
Market Yield	4.87%
-----	
Taxable-Equivalent Yield <sup>1</sup>	7.07%
-----	
Net Assets Applicable to	
Common Shares (\$000)	\$36,679
-----	
Average Effective	
Maturity on Securities (Years)	15.36
-----	

Edgar Filing: NUVEEN ARIZONA DIVIDEND ADVANTAGE MUNICIPAL FUND 3 - Form N-CSRS

Leverage-Adjusted Duration 9.04  
-----

AVERAGE ANNUAL TOTAL RETURN  
(Inception 3/25/02)  
-----

	ON SHARE PRICE	ON NAV
6-Month (Cumulative)	1.31%	3.27%
1-Year	3.15%	4.34%
Since Inception	6.21%	7.10%

INDUSTRIES  
(as a % of total investments)  
-----

Tax Obligation/Limited	32.9%
Tax Obligation/General	18.3%
Health Care	10.6%
U.S. Guaranteed	9.4%
Water and Sewer	7.8%
Education and Civic Organizations	7.2%
Housing/Multifamily	5.4%
Other	8.4%

- 1 Taxable-Equivalent Yield represents the yield that must be earned on a fully taxable investment in order to equal the yield of the Fund on an after-tax basis. It is based on a combined federal and state income tax rate of 31.1%. When comparing this Fund to investments that generate qualified dividend income, the Taxable-Equivalent Yield is lower.
- 2 The Fund paid shareholders a capital gains distribution in December 2006 of \$0.0405 per share.

12

Nuveen Arizona Dividend Advantage Municipal Fund 3  
NXE

Performance  
OVERVIEW As of January 31, 2007

Pie Chart:



Edgar Filing: NUVEEN ARIZONA DIVIDEND ADVANTAGE MUNICIPAL FUND 3 - Form N-CSRS

CREDIT QUALITY

(as a % of total investments)

AAA/U.S. Guaranteed	69%
AA	8%
A	8%
BBB	11%
N/R	4%

Bar Chart:

2006-2007 MONTHLY TAX-FREE DIVIDENDS PER SHARE

Feb	0.0605
Mar	0.0605
Apr	0.0605
May	0.0605
Jun	0.0565
Jul	0.0565
Aug	0.0565
Sep	0.0565
Oct	0.0565
Nov	0.0565
Dec	0.0565
Jan	0.0565

Line Chart:

SHARE PRICE PERFORMANCE

Weekly Closing Price

Past performance is not predictive of future results.

2/01/06	14.35
	14.2
	14.27
	14.56
	14.4
	14.36
	14.43
	14.5
	14.4
	14.3
	14.3
	14.7
	14.19
	14.5
	14.3
	13.85
	13.7
	13.6
	14
	13.65
	13.8
	13.56
	13.59
	13.62
	13.59
	13.45
	13.64
	13.58
	13.89
	13.81
	14
	13.95
	13.98
	13.8201
	13.78

Edgar Filing: NUVEEN ARIZONA DIVIDEND ADVANTAGE MUNICIPAL FUND 3 - Form N-CSRS

	13.8635
	13.8
	14.05
	13.75
	13.8
	13.99
	14.1
	13.9
	14.08
	14
	14
	14.19
	14.4
	14.42
	13.8
	13.85
	13.85
	13.9
	14.1
	13.76
	13.99
1/31/06	14.25

FUND SNAPSHOT

-----	
Common Share Price	\$14.25
-----	
Common Share	
Net Asset Value	\$14.48
-----	
Premium/(Discount) to NAV	-1.59%
-----	
Market Yield	4.76%
-----	
Taxable-Equivalent Yield <sup>1</sup>	6.91%
-----	
Net Assets Applicable to	
Common Shares (\$000)	\$44,429
-----	
Average Effective	
Maturity on Securities (Years)	15.65
-----	
Leverage-Adjusted Duration	8.52
-----	

AVERAGE ANNUAL TOTAL RETURN  
(Inception 9/25/02)

-----		
	ON SHARE PRICE	ON NAV
-----		
6-Month		
(Cumulative)	7.97%	3.48%
-----		
1-Year	4.46%	4.83%
-----		
Since		
Inception	4.25%	5.62%
-----		

INDUSTRIES  
(as a % of total investments)

Tax Obligation/Limited	25.5%
U.S. Guaranteed	15.4%
Health Care	12.2%
Education and Civic Organizations	9.1%
Transportation	9.0%
Utilities	8.1%
Water and Sewer	7.4%
Tax Obligation/General	6.1%
Other	7.2%

1 Taxable-Equivalent Yield represents the yield that must be earned on a fully taxable investment in order to equal the yield of the Fund on an after-tax basis. It is based on a combined federal and state income tax rate of 31.1%. When comparing this Fund to investments that generate qualified dividend income, the Taxable-Equivalent Yield is lower.

Nuveen Texas Quality Income Municipal Fund  
NTX

Performance  
OVERVIEW As of January 31, 2007

Pie Chart:  
CREDIT QUALITY  
(as a % of total investments)

AAA/U.S. Guaranteed	68%
AA	11%
A	7%
BBB	11%
BB or Lower	1%
N/R	2%

Bar Chart:  
2006-2007 MONTHLY TAX-FREE DIVIDENDS PER SHARE<sup>2</sup>

Feb	0.0695
Mar	0.066
Apr	0.066
May	0.066
Jun	0.0635
Jul	0.0635
Aug	0.0635
Sep	0.0605
Oct	0.0605

Edgar Filing: NUVEEN ARIZONA DIVIDEND ADVANTAGE MUNICIPAL FUND 3 - Form N-CSRS

Nov	0.0605
Dec	0.0605
Jan	0.0605

Line Chart:

SHARE PRICE PERFORMANCE

Weekly Closing Price

Past performance is not predictive of future results.

2/01/06	15.01
	15.12
	15.15
	15.35
	15.14
	15.11
	14.96
	14.95
	14.93
	14.99
	14.961
	14.95
	14.96
	15.04
	14.86
	14.48
	14.52
	14.39
	14.43
	14.43
	14.25
	14.05
	14.2
	14.35
	14.46
	14.14
	14.14
	14.95
	14.79
	15
	14.95
	14.86
	14.96
	14.88
	14.84
	14.9
	14.83
	14.73
	14.59
	14.64
	14.67
	14.86
	14.81
	14.87
	14.91
	14.87
	14.87
	14.8
	14.58
	14.62
	14.64
	14.64
	14.6
	14.69

Edgar Filing: NUVEEN ARIZONA DIVIDEND ADVANTAGE MUNICIPAL FUND 3 - Form N-CSRS

	14.61
	14.63
1/31/07	14.54

FUND SNAPSHOT

Common Share Price	\$14.54
Common Share Net Asset Value	\$15.18
Premium/(Discount) to NAV	-4.22%
Market Yield	4.99%
Taxable-Equivalent Yield <sup>1</sup>	6.93%
Net Assets Applicable to Common Shares (\$000)	\$144,142
Average Effective Maturity on Securities (Years)	16.35
Leverage-Adjusted Duration	7.51

AVERAGE ANNUAL TOTAL RETURN  
(Inception 10/17/91)

	ON SHARE PRICE	ON NAV
6-Month (Cumulative)	1.57%	3.47%
1-Year	2.35%	4.67%
5-Year	5.82%	6.56%
10-Year	6.16%	6.24%

INDUSTRIES

(as a % of total investments)

Tax Obligation/General	30.9%
U.S. Guaranteed	13.0%
Education and Civic Organizations	12.5%
Health Care	9.0%
Water and Sewer	7.3%
Utilities	6.5%
Long-Term Care	4.8%
Transportation	4.3%

Other 11.7%

- 1 Taxable-Equivalent Yield represents the yield that must be earned on a fully taxable investment in order to equal the yield of the Fund on an after-tax basis. It is based on a federal income tax rate of 28%. When comparing this Fund to investments that generate qualified dividend income, the Taxable-Equivalent Yield is lower.
- 2 The Fund paid shareholders a capital gains distribution in December 2006 of \$.0363 per share.

14

Shareholder  
MEETING REPORT

The shareholder meeting was held in the offices of Nuveen Investments on November 14, 2006.

	NAZ		NFZ	
APPROVAL OF THE BOARD MEMBERS WAS REACHED AS FOLLOWS:	Common and MuniPreferred shares voting together as a class	MuniPreferred shares voting together as a class	Common and MuniPreferred shares voting together as a class	MuniPreferred shares voting together as a class
Robert P. Bremner				
For	4,201,587	--	1,524,703	--
Withhold	65,555	--	3,051	--
Total	4,267,142	--	1,527,754	--
Lawrence H. Brown				
For	4,194,800	--	1,524,703	--
Withhold	72,342	--	3,051	--
Total	4,267,142	--	1,527,754	--
Jack B. Evans				
For	4,201,587	--	1,521,103	--
Withhold	65,555	--	6,651	--
Total	4,267,142	--	1,527,754	--
William C. Hunter				
For	4,204,087	--	1,521,103	--
Withhold	63,055	--	6,651	--
Total	4,267,142	--	1,527,754	--
David J. Kundert				
For	4,203,087	--	1,524,703	--

Edgar Filing: NUVEEN ARIZONA DIVIDEND ADVANTAGE MUNICIPAL FUND 3 - Form N-CSRS

Withhold	64,055	--	3,051	--
Total	4,267,142	--	1,527,754	--
=====				
William J. Schneider				
For	--	1,068	--	467
Withhold	--	1	--	1
Total	--	1,069	--	468
=====				
Timothy R. Schwertfeger				
For	--	1,068	--	467
Withhold	--	1	--	1
Total	--	1,069	--	468
=====				
Judith M. Stockdale				
For	4,178,759	--	1,519,803	--
Withhold	88,383	--	7,951	--
Total	4,267,142	--	1,527,754	--
=====				
Eugene S. Sunshine				
For	4,195,900	--	1,524,703	--
Withhold	71,242	--	3,051	--
Total	4,267,142	--	1,527,754	--
=====				

15

Shareholder  
MEETING REPORT (continued)

NXE

APPROVAL OF THE BOARD MEMBERS  
WAS REACHED AS FOLLOWS:

	Common and MuniPreferred shares voting together as a class	MuniPreferred shares voting together as a class
=====		
Robert P. Bremner		
For	2,979,003	--
Withhold	25,690	--
Total	3,004,693	--
=====		
Lawrence H. Brown		
For	2,960,435	--
Withhold	44,258	--
Total	3,004,693	--
=====		
Jack B. Evans		
For	2,958,809	--

Edgar Filing: NUVEEN ARIZONA DIVIDEND ADVANTAGE MUNICIPAL FUND 3 - Form N-CSRS

Withhold	45,884	--
Total	3,004,693	--
=====		
William C. Hunter		
For	2,979,109	--
Withhold	25,584	--
Total	3,004,693	--
=====		
David J. Kundert		
For	2,975,303	--
Withhold	29,390	--
Total	3,004,693	--
=====		
William J. Schneider		
For	--	880
Withhold	--	--
Total	--	880
=====		
Timothy R. Schwertfeger		
For	--	880
Withhold	--	--
Total	--	880
=====		
Judith M. Stockdale		
For	2,974,303	--
Withhold	30,390	--
Total	3,004,693	--
=====		
Eugene S. Sunshine		
For	2,976,335	--
Withhold	28,358	--
Total	3,004,693	--
=====		

16

Nuveen Arizona Premium Income Municipal Fund, Inc. (NAZ)  
 Portfolio of  
 INVESTMENTS January 31, 2007 (Unaudited)

PRINCIPAL AMOUNT (000)	DESCRIPTION (1)	OPTIONAL C PROVISIONS
	CONSUMER STAPLES - 1.5% (1.0% OF TOTAL INVESTMENTS)	
\$ 895	Puerto Rico, The Children's Trust Fund, Tobacco Settlement Asset-Backed Refunding Bonds, Series 2002, 5.375%, 5/15/33	5/12 at 100



Edgar Filing: NUVEEN ARIZONA DIVIDEND ADVANTAGE MUNICIPAL FUND 3 - Form N-CSRS

EDUCATION AND CIVIC ORGANIZATIONS - 14.8% (9.9% OF TOTAL INVESTMENTS)

1,000	Arizona State University, System Revenue Bonds, Series 2002, 5.000%, 7/01/25 - FGIC Insured	7/12 at 100
2,455	Arizona State University, System Revenue Bonds, Series 2005: 5.000%, 7/01/20 - AMBAC Insured	7/15 at 100
1,500	5.000%, 7/01/21 - AMBAC Insured	7/15 at 100
1,250	Glendale Industrial Development Authority, Arizona, Revenue Bonds, Midwestern University, Series 2001A, 5.875%, 5/15/31	5/11 at 101
1,180	Northern Arizona University, System Revenue Bonds, Series 2006, 5.000%, 6/01/24 - FGIC Insured	6/17 at 100
1,500	Tempe Industrial Development Authority, Arizona, Lease Revenue Bonds, Arizona State University Foundation Project, Series 2003, 5.000%, 7/01/34 - AMBAC Insured	7/13 at 100
-----		
8,885	Total Education and Civic Organizations	
-----		

HEALTH CARE - 12.4% (8.3% OF TOTAL INVESTMENTS)

800	Arizona Health Facilities Authority, Hospital Revenue Bonds, Catholic Healthcare West, Series 1999A, 6.625%, 7/01/20	7/10 at 101
1,450	Arizona Health Facilities Authority, Hospital System Revenue Bonds, Phoenix Children's Hospital, Series 1999A, 6.125%, 11/15/22	11/09 at 100
675	Glendale Industrial Development Authority, Arizona, Revenue Bonds, John C. Lincoln Health Network, Series 2005B, 5.000%, 12/01/37	12/15 at 100
550	Maricopa County Industrial Development Authority, Arizona, Health Facilities Revenue Bonds, Mayo Clinic, Series 2006, 5.000%, 11/15/36	5/16 at 100
2,150	Maricopa County Industrial Development Authority, Arizona, Health Facility Revenue Bonds, Catholic Healthcare West, Series 2004A, 5.375%, 7/01/23	7/14 at 100
385	Maricopa County, Arizona, Hospital Revenue Bonds, Sun Health Corporation, Series 2005, 5.000%, 4/01/16	4/15 at 100
515	Puerto Rico Industrial, Tourist, Educational, Medical and Environmental Control Facilities Financing Authority, Hospital Revenue Bonds, Hospital de la Concepcion, Series 2000A, 6.375%, 11/15/15	11/10 at 101
1,055	Winslow Industrial Development Authority, Arizona, Hospital Revenue Bonds, Winslow Memorial Hospital, Series 1998, 5.500%, 6/01/22	6/08 at 101
-----		
7,580	Total Health Care	
-----		

Edgar Filing: NUVEEN ARIZONA DIVIDEND ADVANTAGE MUNICIPAL FUND 3 - Form N-CSRS

HOUSING/MULTIFAMILY - 1.5% (1.0% OF TOTAL INVESTMENTS)

400	Phoenix Industrial Development Authority, Arizona, GNMA Collateralized Multifamily Housing Revenue Bonds, Campaigne Place on Jackson, Series 2001, 5.700%, 6/20/31 (Alternative Minimum Tax)	6/11 at 100
530	Phoenix Industrial Development Authority, Arizona, GNMA Collateralized Multifamily Housing Revenue Bonds, Park Lee Apartments, Series 2004A, 5.050%, 10/20/44 (Alternative Minimum Tax)	4/15 at 100

---

930 Total Housing/Multifamily

---

HOUSING/SINGLE FAMILY - 2.7% (1.8% OF TOTAL INVESTMENTS)

1,690	The Industrial Development Authority of The City of Tucson, Arizona, Tax-Exempt Single Family Mortgage Revenue Bonds, Series 2007A-1, 5.100%, 7/01/38	1/17 at 100
-------	---	-------------

17

Nuveen Arizona Premium Income Municipal Fund, Inc. (NAZ) (continued)  
Portfolio of INVESTMENTS January 31, 2007 (Unaudited)

PRINCIPAL AMOUNT (000)	DESCRIPTION (1)	OPTIONAL C PROVISIONS
------------------------	-----------------	-----------------------

---

INDUSTRIALS - 2.1% (1.4% OF TOTAL INVESTMENTS)

\$ 1,345	Yavapai County Industrial Development Authority, Arizona, Solid Waste Disposal Revenue Bonds, Waste Management Inc., Series 2003B, 4.450%, 3/01/28 (Mandatory put 3/01/08) (Alternative Minimum Tax)	No Opt. C
----------	--	-----------

TAX OBLIGATION/GENERAL - 4.1% (2.8% OF TOTAL INVESTMENTS)

630	Maricopa County Union High School District 210 Phoenix, Arizona, General Obligation Bonds, Series 2006C, 5.000%, 7/01/24 - MBIA Insured	7/16 at 100
1,525	Maricopa County Union High School District 210, Phoenix, Arizona, General Obligation Bonds, Series 2004A, 5.000%, 7/01/21 - FSA Insured	7/14 at 100
330	Puerto Rico, General Obligation and Public Improvement Bonds, Series 2001A, 5.375%, 7/01/28	7/11 at 100

---

2,485 Total Tax Obligation/General

---

TAX OBLIGATION/LIMITED - 39.3% (26.3% OF TOTAL INVESTMENTS)

Edgar Filing: NUVEEN ARIZONA DIVIDEND ADVANTAGE MUNICIPAL FUND 3 - Form N-CSRS

	Bullhead City, Arizona, Special Assessment Bonds, Parkway District Improvements, Series 1993:	
720	6.100%, 1/01/08	7/07 at 100
775	6.100%, 1/01/09	7/07 at 100
474	Estrella Mountain Ranch Community Facilities District, Goodyear, Arizona, Special Assessment Lien Bonds, Series 2001A, 7.875%, 7/01/25	7/10 at 102
	Greater Arizona Development Authority, Infrastructure Revenue Bonds, Series 2006A:	
740	5.000%, 8/01/23 - MBIA Insured	8/16 at 100
875	5.000%, 8/01/25 - MBIA Insured	8/16 at 100
1,280	Greater Arizona Development Authority, Infrastructure Revenue Bonds, Series 2006, 5.000%, 8/01/22 - MBIA Insured	8/16 at 100
575	Marana Municipal Property Corporation, Arizona, Revenue Bonds, Series 2003, 5.000%, 7/01/28 - AMBAC Insured	7/13 at 100
1,110	Marana, Arizona, Tangerine Farms Road Improvement District Revenue Bonds, Series 2006, 4.600%, 1/01/26	7/16 at 100
3,400	Maricopa County Stadium District, Arizona, Revenue Refunding Bonds, Series 2002, 5.375%, 6/01/18 - AMBAC Insured	6/12 at 100
3,400	Mesa, Arizona, Street and Highway User Tax Revenue Bonds, Series 2005, 5.000%, 7/01/24 - FSA Insured	7/15 at 100
2,000	Phoenix Civic Improvement Corporation, Arizona, Subordinate Lien Excise Tax Revenue Bonds, Series 2003A, 5.000%, 7/01/21 - MBIA Insured	7/13 at 100
1,200	Prescott Valley Municipal Property Corporation, Arizona, Municipal Facilities Revenue Bonds, Series 2003, 5.000%, 1/01/27 - FGIC Insured	1/13 at 100
	Puerto Rico Infrastructure Financing Authority, Special Tax Revenue Bonds, Series 2005A	
11,970	0.000%, 7/01/42 - FGIC Insured (UB)	No Opt. C
2,875	0.000%, 7/01/43 - AMBAC Insured (UB)	No Opt. C
1,000	Puerto Rico Public Buildings Authority, Guaranteed Government Facilities Revenue Refunding Bonds, Series 2002D, 5.125%, 7/01/24	7/12 at 100
1,610	San Luis Civic Improvement Corporation, Arizona, Municipal Facilities Excise Tax Revenue Bonds, Series 2005, 5.000%, 7/01/25 - XLCA Insured	7/15 at 100
1,350	Tempe, Arizona, Excise Tax Revenue Bonds, Series 2004, 5.250%, 7/01/20 - AMBAC Insured	7/14 at 100
500	Tucson, Arizona, Certificates of Participation, Series 2000, 5.700%, 7/01/20 - MBIA Insured	7/08 at 100
35,854	Total Tax Obligation/Limited	

Edgar Filing: NUVEEN ARIZONA DIVIDEND ADVANTAGE MUNICIPAL FUND 3 - Form N-CSRS

U.S. GUARANTEED - 35.1% (23.4% OF TOTAL INVESTMENTS) (4)

1,000	Arizona Health Facilities Authority, Hospital System Revenue Bonds, John C. Lincoln Health Network, Series 2000, 7.000%, 12/01/25 (Pre-refunded 12/01/10)	12/10 at 102
1,000	Arizona State University, Certificates of Participation, Series 2002, 5.375%, 7/01/19 (Pre-refunded 7/01/12) - MBIA Insured	7/12 at 100

18

PRINCIPAL AMOUNT (000)	DESCRIPTION (1)	OPTIONAL C PROVISIONS
-----		
U.S. GUARANTEED (4) (continued)		
	Arizona Tourism and Sports Authority, Tax Revenue Bonds, Multipurpose Stadium Facility Project, Series 2003A:	
\$ 1,000	5.375%, 7/01/20 (Pre-refunded 7/01/13) - MBIA Insured	7/13 at 100
1,000	5.375%, 7/01/21 (Pre-refunded 7/01/13) - MBIA Insured	7/13 at 100
1,250	Maricopa County Industrial Development Authority, Arizona, Hospital Revenue Refunding Bonds, Samaritan Health Services, Series 1990A, 7.000%, 12/01/16 - MBIA Insured (ETM)	No Opt. C
3,000	Mesa Industrial Development Authority, Arizona, Revenue Bonds, Discovery Health System, Series 1999A, 5.750%, 1/01/25 (Pre-refunded 1/01/10) - MBIA Insured	1/10 at 101
345	Mohave County Industrial Development Authority, Arizona, GNMA Collateralized Healthcare Revenue Refunding Bonds, Chris Ridge and Silver Village Projects, Series 1996, 6.375%, 11/01/31 (Pre-refunded 2/01/07)	2/07 at 100
1,050	Northern Arizona University, System Revenue Bonds, Series 2002, 5.000%, 6/01/34 (Pre-refunded 6/01/12) - FGIC Insured	6/12 at 100
2,000	Phoenix Civic Improvement Corporation, Arizona, Junior Lien Wastewater System Revenue Bonds, Series 2000, 6.000%, 7/01/24 (Pre-refunded 7/01/10) - FGIC Insured	7/10 at 101
	Phoenix Industrial Development Authority, Arizona, Government Office Lease Revenue Bonds, Capitol Mall LLC, Series 2000:	
700	5.375%, 9/15/22 (Pre-refunded 9/15/10) - AMBAC Insured	9/10 at 100
2,000	5.500%, 9/15/27 (Pre-refunded 9/15/10) - AMBAC Insured	9/10 at 100
1,000	Puerto Rico Highway and Transportation Authority, Highway Revenue Bonds, Series 2000B, 6.500%, 7/01/27 (Pre-refunded 7/01/10)	7/10 at 101
1,500	Scottsdale Industrial Development Authority, Arizona, Hospital Revenue Bonds, Scottsdale Healthcare, Series 2001, 5.800%, 12/01/31 (Pre-refunded 12/01/11)	12/11 at 101
3,215	Tucson Industrial Development Authority, Arizona, Senior	7/10 at 101

Edgar Filing: NUVEEN ARIZONA DIVIDEND ADVANTAGE MUNICIPAL FUND 3 - Form N-CSRS

Living Facilities Revenue Bonds, Christian Care Project,  
Series 2000A, 5.625%, 7/01/20 (Pre-refunded 7/01/10) -  
RAAI Insured

600 Tucson, Arizona, Junior Lien Street and Highway User Revenue Bonds, Series 2000E, 5.000%, 7/01/18 (Pre-refunded 7/01/10) - FGIC Insured 7/10 at 100

---

20,660 Total U.S. Guaranteed

---

UTILITIES - 12.1% (8.1% OF TOTAL INVESTMENTS)

1,000 Arizona Power Authority, Special Obligation Power Resource Revenue Refunding Crossover Bonds, Hoover Project, Series 2001, 5.250%, 10/01/15 No Opt. C

620 Pima County Industrial Development Authority, Arizona, Lease Obligation Revenue Refunding Bonds, Tucson Electric Power Company, Series 1988A, 7.250%, 7/15/10 - FSA Insured 7/07 at 100

2,170 Puerto Rico Electric Power Authority, Power Revenue Bonds, Series 2005RR, 5.000%, 7/01/27 - XLCA Insured 7/15 at 100

530 Salt River Project Agricultural Improvement and Power District, Arizona, Electric System Revenue Bonds, Series 2002B, 5.000%, 1/01/22 1/13 at 100

Salt River Project Agricultural Improvement and Power District, Arizona, Electric System Revenue Refunding Bonds, Series 2002A:  
2,000 5.125%, 1/01/27 1/12 at 101  
1,000 5.000%, 1/01/31 1/12 at 101

---

7,320 Total Utilities

---

WATER AND SEWER - 24.0% (16.0% OF TOTAL INVESTMENTS)

1,825 Arizona Water Infrastructure Finance Authority, Water Quality Revenue Bonds, Series 2004A, 5.000%, 10/01/19 10/14 at 100

1,005 Cottonwood, Arizona, Senior Lien Water System Revenue Bonds, Municipal Property Corporation, Series 2004, 5.000%, 7/01/24 - XLCA Insured 7/14 at 100

3,500 Glendale, Arizona, Water and Sewer Revenue Bonds, Subordinate Lien, Series 2003, 5.000%, 7/01/28 - AMBAC Insured 7/13 at 100

600 Oro Valley Municipal Property Corporation, Arizona, Senior Lien Water Revenue Bonds, Series 2003, 5.000%, 7/01/23 - MBIA Insured 7/13 at 100

Edgar Filing: NUVEEN ARIZONA DIVIDEND ADVANTAGE MUNICIPAL FUND 3 - Form N-CSRS

Portfolio of INVESTMENTS January 31, 2007 (Unaudited)

PRINCIPAL AMOUNT (000)	DESCRIPTION (1)	OPTIONAL C PROVISIONS
-----		
	WATER AND SEWER (continued)	
\$ 1,415	Phoenix Civic Improvement Corporation, Arizona, Junior Lien Wastewater System Revenue Bonds, Series 2004, 5.000%, 7/01/24 - MBIA Insured	7/14 at 100
1,500	Phoenix Civic Improvement Corporation, Arizona, Junior Lien Water System Revenue Bonds, Series 2002, 5.000%, 7/01/26 - FGIC Insured	7/12 at 100
3,295	Phoenix Civic Improvement Corporation, Arizona, Junior Lien Water System Revenue Bonds, Series 2005, 5.000%, 7/01/23 - MBIA Insured	7/15 at 100
1,250	Phoenix Civic Improvement Corporation, Arizona, Junior Lien Water System Revenue Refunding Bonds, Series 2001, 5.500%, 7/01/21 - FGIC Insured	No Opt. C
-----		
14,390	Total Water and Sewer	
-----		
\$ 102,034	Total Investments (cost \$91,688,321) - 149.6%	
=====		
	Floating Rate Obligations - (3.2)%	
	-----	
	Other Assets Less Liabilities - 0.7%	
	-----	
	Preferred Shares, at Liquidation Value - (47.1)%	
	-----	
	Net Assets Applicable to Common Shares - 100%	
	=====	

- (1) All percentages shown in the Portfolio of Investments are based on net assets applicable to Common shares unless otherwise noted.
- (2) Optional Call Provisions: Dates (month and year) and prices of the earliest optional call or redemption. There may be other call provisions at varying prices at later dates. Certain mortgage-backed securities may be subject to periodic principal paydowns.
- (3) Ratings: Using the higher of Standard & Poor's or Moody's rating. Ratings below BBB by Standard & Poor's Group or Baa by Moody's Investor Service, Inc. are considered to be below investment grade.
- (4) Backed by an escrow or trust containing sufficient U.S. Government or U.S. Government agency securities which ensure the timely payment of principal and interest. Such investments are normally considered to be equivalent to AAA rated securities.
- N/R Not rated.
- (ETM) Escrowed to maturity.

Edgar Filing: NUVEEN ARIZONA DIVIDEND ADVANTAGE MUNICIPAL FUND 3 - Form N-CSRS

(UB) Underlying bond of an inverse floating rate trust reflected as a financing transaction pursuant to the provisions of SFAS No. 140.

See accompanying notes to financial statements.

20

Nuveen Arizona Dividend Advantage Municipal Fund (NFZ)  
 Portfolio of  
 INVESTMENTS January 31, 2007 (Unaudited)

PRINCIPAL AMOUNT (000)	DESCRIPTION (1)	OPTIONAL C PROVISIONS
-----		
EDUCATION AND CIVIC ORGANIZATIONS - 7.2% (4.7% OF TOTAL INVESTMENTS)		
\$ 1,000	Puerto Rico Industrial, Tourist, Educational, Medical and Environmental Control Facilities Financing Authority, Higher Education Revenue Bonds, Ana G. Mendez University System, Series 1999, 5.375%, 2/01/29	2/09 at 101
300	Puerto Rico Industrial, Tourist, Educational, Medical and Environmental Control Facilities Financing Authority, Higher Education Revenue Bonds, University of the Sacred Heart, Series 2001, 5.250%, 9/01/21	9/11 at 100
305	Tucson Industrial Development Authority, Arizona, Charter School Revenue Bonds, Arizona Agribusiness and Equine Center Charter School, Series 2004A, 6.125%, 9/01/34	9/14 at 100
-----		
1,605	Total Education and Civic Organizations	
-----		
HEALTH CARE - 7.9% (5.1% OF TOTAL INVESTMENTS)		
365	Arizona Health Facilities Authority, Hospital Revenue Bonds, Catholic Healthcare West, Series 1999A, 6.625%, 7/01/20	7/10 at 101
10	California Health Facilities Financing Authority, Health Facility Revenue Bonds, Adventist Health System/West, Series 2003A, 5.000%, 3/01/28	3/13 at 100
250	Glendale Industrial Development Authority, Arizona, Revenue Bonds, John C. Lincoln Health Network, Series 2005B, 5.000%, 12/01/37	12/15 at 100
200	Maricopa County Industrial Development Authority, Arizona, Health Facilities Revenue Bonds, Mayo Clinic, Series 2006, 5.000%, 11/15/36	5/16 at 100
750	Maricopa County Industrial Development Authority, Arizona, Health Facility Revenue Bonds, Catholic Healthcare West, Series 2004A, 5.375%, 7/01/23	7/14 at 100

Edgar Filing: NUVEEN ARIZONA DIVIDEND ADVANTAGE MUNICIPAL FUND 3 - Form N-CSRS

140	Maricopa County, Arizona, Hospital Revenue Bonds, Sun Health Corporation, Series 2005, 5.000%, 4/01/16	4/15 at 100
<hr/>		
1,715	Total Health Care	
<hr/>		
HOUSING/MULTIFAMILY - 6.7% (4.3% OF TOTAL INVESTMENTS)		
1,000	Maricopa County Industrial Development Authority, Arizona, Multifamily Housing Revenue Bonds, Whispering Palms Apartments, Series 1999A, 5.900%, 7/01/29 - MBIA Insured	7/09 at 102
275	Phoenix Industrial Development Authority, Arizona, GNMA Collateralized Multifamily Housing Revenue Bonds, Campaigne Place on Jackson, Series 2001, 5.700%, 6/20/31 (Alternative Minimum Tax)	6/11 at 102
205	Phoenix Industrial Development Authority, Arizona, GNMA Collateralized Multifamily Housing Revenue Bonds, Park Lee Apartments, Series 2004A, 5.050%, 10/20/44 (Alternative Minimum Tax)	4/15 at 100
<hr/>		
1,480	Total Housing/Multifamily	
<hr/>		
HOUSING/SINGLE FAMILY - 3.0% (1.9% OF TOTAL INVESTMENTS)		
25	Pima County Industrial Development Authority, Arizona, FNMA/GNMA Single Family Mortgage Revenue Bonds, Series 2001A-4, 5.050%, 5/01/17	11/10 at 101
635	The Industrial Development Authority of The City of Tucson, Arizona, Tax-Exempt Single Family Mortgage Revenue Bonds, Series 2007A-1, 5.100%, 7/01/38	1/17 at 103
<hr/>		
660	Total Housing/Single Family	
<hr/>		
INDUSTRIALS - 2.2% (1.5% OF TOTAL INVESTMENTS)		
510	Yavapai County Industrial Development Authority, Arizona, Solid Waste Disposal Revenue Bonds, Waste Management Inc., Series 2003B, 4.450%, 3/01/28 (Mandatory put 3/01/08) (Alternative Minimum Tax)	No Opt. C
<hr/>		
TAX OBLIGATION/GENERAL - 21.1% (13.7% OF TOTAL INVESTMENTS)		
1,000	Maricopa County Unified School District 11, Peoria, Arizona, General Obligation Bonds, Second Series 2005, 5.000%, 7/01/20 - FGIC Insured	7/15 at 100



Edgar Filing: NUVEEN ARIZONA DIVIDEND ADVANTAGE MUNICIPAL FUND 3 - Form N-CSRS

Nuveen Arizona Dividend Advantage Municipal Fund (NFZ) (continued)  
 Portfolio of INVESTMENTS January 31, 2007 (Unaudited)

PRINCIPAL AMOUNT (000)	DESCRIPTION (1)	OPTIONAL C PROVISIONS
-----		
TAX OBLIGATION/GENERAL (continued)		
\$ 240	Maricopa County Union High School District 210 Phoenix, Arizona, General Obligation Bonds, Series 2006C, 5.000%, 7/01/24 - MBIA Insured	7/16 at 100
1,020	Tucson, Arizona, General Obligation Refunding Bonds, Series 1997, 5.000%, 7/01/19	7/07 at 100
2,340	Yuma & La Paz Counties Community College District, Arizona, General Obligation Bonds, Series 2006, 5.000%, 7/01/21 - MBIA Insured	7/16 at 100
-----		
4,600	Total Tax Obligation/General	
-----		
TAX OBLIGATION/LIMITED - 52.8% (34.3% OF TOTAL INVESTMENTS)		
1,500	Arizona School Facilities Board, School Improvement Revenue Bonds, Series 2004A, 5.750%, 7/01/18 - AMBAC Insured	7/14 at 100
1,220	Arizona Tourism and Sports Authority, Tax Revenue Bonds, Multipurpose Stadium Facility Project, Series 2003A, 5.000%, 7/01/31 - MBIA Insured	7/13 at 100
98	Centerra Community Facilities District, Goodyear, Arizona, General Obligation Bonds, Series 2005, 5.500%, 7/15/29	7/15 at 100
184	Estrella Mountain Ranch Community Facilities District, Goodyear, Arizona, Special Assessment Lien Bonds, Series 2001A, 7.875%, 7/01/25	7/10 at 102
275	Greater Arizona Development Authority, Infrastructure Revenue Bonds, Series 2006A, 5.000%, 8/01/23 - MBIA Insured	8/16 at 100
1,000	Greater Arizona Development Authority, Infrastructure Revenue Bonds, Series 2006, 5.000%, 8/01/22 - MBIA Insured	8/16 at 100
1,180	Marana Municipal Property Corporation, Arizona, Revenue Bonds, Series 2003, 5.000%, 7/01/23 - AMBAC Insured	7/13 at 100
415	Marana, Arizona, Tangerine Farms Road Improvement District Revenue Bonds, Series 2006, 4.600%, 1/01/26	7/16 at 100
330	Palm Valley Community Facility District 3, Goodyear, Arizona, General Obligation Bonds, Series 2006, 5.300%, 7/15/31	7/16 at 100
100	Parkway Community Facilities District 1, Prescott Valley, Arizona, General Obligation Bonds, Series 2006, 5.350%, 7/15/31	7/16 at 100
900	Phoenix Industrial Development Authority, Arizona, Government Bonds, Capitol Mall LLC II, Series 2001,	3/12 at 100

Edgar Filing: NUVEEN ARIZONA DIVIDEND ADVANTAGE MUNICIPAL FUND 3 - Form N-CSRS

	5.250%, 9/15/16 - AMBAC Insured	
680	Pinal County Industrial Development Authority, Arizona, Correctional Facilities Contract Revenue Bonds, Florence West Prison LLC, Series 2002A, 5.000%, 10/01/18 - ACA Insured	No Opt. C
75	Puerto Rico Infrastructure Financing Authority, Special Tax Bonds, Residual Series 1534, 5.655%, 7/01/42 - AMBAC Insured (IF)	No Opt. C
4,495	Puerto Rico Infrastructure Financing Authority, Special Tax Revenue Bonds, Series 2005A, 0.000%, 7/01/42 - FGIC Insured (UB)	No Opt. C
600	San Luis Civic Improvement Corporation, Arizona, Municipal Facilities Excise Tax Revenue Bonds, Series 2005, 5.000%, 7/01/25 - XLCA Insured	7/15 at 100
1,000	Tempe, Arizona, Excise Tax Revenue Bonds, Series 2004, 5.250%, 7/01/20 - AMBAC Insured	7/14 at 100
500	Vistancia Community Facilities District, Arizona, Restricted General Obligation Bonds, Series 2005, 5.750%, 7/15/24	7/15 at 100
355	Watson Road Community Facilities District, Arizona, Special Assessment Revenue Bonds, Series 2005, 6.000%, 7/01/30	7/16 at 100
225	Westpark Community Facilities District, Buckeye, Arizona, General Obligation Tax Increment Bonds Series 2006, 5.250%, 7/15/31	7/16 at 100
-----		
15,132	Total Tax Obligation/Limited	
-----		

U.S. GUARANTEED - 18.0% (11.7% OF TOTAL INVESTMENTS) (4)

550	Arizona Health Facilities Authority, Hospital System Revenue Bonds, John C. Lincoln Health Network, Series 2000, 6.875%, 12/01/20 (Pre-refunded 12/01/10)	12/10 at 102
1,000	Arizona Tourism and Sports Authority, Tax Revenue Bonds, Multipurpose Stadium Facility Project, Series 2003A, 5.375%, 7/01/21 (Pre-refunded 7/01/13) - MBIA Insured	7/13 at 100

PRINCIPAL AMOUNT (000)	DESCRIPTION (1)	OPTIONAL C PROVISIONS
-----		
	U.S. GUARANTEED (4) (continued)	
\$ 1,300	Maricopa County Industrial Development Authority, Arizona, Education Revenue Bonds, Horizon Community Learning Center Project, Series 2000, 6.350%, 6/01/26 (Pre-refunded 6/01/07) - ACA Insured	6/07 at 102

Edgar Filing: NUVEEN ARIZONA DIVIDEND ADVANTAGE MUNICIPAL FUND 3 - Form N-CSRS

1,000	Scottsdale Industrial Development Authority, Arizona, Hospital Revenue Bonds, Scottsdale Healthcare, Series 2001, 5.800%, 12/01/31 (Pre-refunded 12/01/11)	12/11 at 101
<hr/>		
3,850	Total U.S. Guaranteed	
<hr/>		
UTILITIES - 24.0% (15.6% OF TOTAL INVESTMENTS)		
1,500	Arizona Power Authority, Special Obligation Power Resource Revenue Refunding Crossover Bonds, Hoover Project, Series 2001, 5.250%, 10/01/17	No Opt. C
1,000	Mesa, Arizona, Utility System Revenue Refunding Bonds, Series 2002, 5.250%, 7/01/17 - FGIC Insured	No Opt. C
1,000	Puerto Rico Electric Power Authority, Power Revenue Bonds, Series 2005RR: 5.000%, 7/01/26 - XLCA Insured	7/15 at 100
170	5.000%, 7/01/27 - XLCA Insured	7/15 at 100
200	Salt River Project Agricultural Improvement and Power District, Arizona, Electric System Revenue Bonds, Series 2002B, 5.000%, 1/01/22	1/13 at 100
235	Salt River Project Agricultural Improvement and Power District, Arizona, Electric System Revenue Refunding Bonds, Series 1997A, 5.000%, 1/01/20	1/08 at 101
1,000	Salt River Project Agricultural Improvement and Power District, Arizona, Electric System Revenue Refunding Bonds, Series 2002A, 5.250%, 1/01/18	1/12 at 101
<hr/>		
5,105	Total Utilities	
<hr/>		
WATER AND SEWER - 11.1% (7.2% OF TOTAL INVESTMENTS)		
225	Oro Valley Municipal Property Corporation, Arizona, Senior Lien Water Revenue Bonds, Series 2003, 5.000%, 7/01/23 - MBIA Insured	7/13 at 100
200	Phoenix Civic Improvement Corporation, Arizona, Junior Lien Wastewater System Revenue Bonds, Series 2004, 5.000%, 7/01/24 - MBIA Insured	7/14 at 100
1,500	Phoenix Civic Improvement Corporation, Arizona, Junior Lien Water System Revenue Bonds, Series 2002, 5.000%, 7/01/26 - FGIC Insured	7/12 at 100
520	Phoenix Civic Improvement Corporation, Arizona, Junior Lien Water System Revenue Bonds, Series 2005, 5.000%, 7/01/23 - MBIA Insured	7/15 at 100
<hr/>		
2,445	Total Water and Sewer	

Edgar Filing: NUVEEN ARIZONA DIVIDEND ADVANTAGE MUNICIPAL FUND 3 - Form N-CSRS

-----  
 \$ 37,102 Total Investments (cost \$34,306,399) - 154.0%  
 =====

Floating Rate Obligations - (2.7)%

Other Assets Less Liabilities - 0.8%

Preferred Shares, at Liquidation Value - (52.1)%

Net Assets Applicable to Common Shares - 100%  
 =====

- (1) All percentages shown in the Portfolio of Investments are based on net assets applicable to Common shares unless otherwise noted.
  - (2) Optional Call Provisions: Dates (month and year) and prices of the earliest optional call or redemption. There may be other call provisions at varying prices at later dates. Certain mortgage-backed securities may be subject to periodic principal paydowns.
  - (3) Ratings: Using the higher of Standard & Poor's or Moody's rating. Ratings below BBB by Standard & Poor's Group or Baa by Moody's Investor Service, Inc. are considered to be below investment grade.
  - (4) Backed by an escrow or trust containing sufficient U.S. Government or U.S. Government agency securities which ensure the timely payment of principal and interest. Such investments are normally considered to be equivalent to AAA rated securities.
- N/R Not rated.
- (IF) Inverse floating rate investment.
- (UB) Underlying bond of an inverse floating rate trust reflected as a financing transaction pursuant to the provisions of SFAS No. 140.

See accompanying notes to financial statements.

Nuveen Arizona Dividend Advantage Municipal Fund 2 (NKR)  
 Portfolio of  
 INVESTMENTS January 31, 2007 (Unaudited)

PRINCIPAL AMOUNT (000)	DESCRIPTION (1)	OPTIONAL C PROVISIONS
-----		
	EDUCATION AND CIVIC ORGANIZATIONS - 10.9% (7.2% OF TOTAL INVESTMENTS)	
\$ 1,250	Glendale Industrial Development Authority, Arizona, Revenue Bonds, Midwestern University, Series 2001A, 5.875%, 5/15/31	5/11 at 101
460	Pima County Industrial Development Authority, Arizona, Charter School Revenue Bonds, Noah Webster Basic	12/14 at 100

Edgar Filing: NUVEEN ARIZONA DIVIDEND ADVANTAGE MUNICIPAL FUND 3 - Form N-CSRS

Schools Inc., Series 2004, 6.000%, 12/15/24

320	Puerto Rico Industrial, Tourist, Educational, Medical and Environmental Control Facilities Financing Authority, Higher Education Revenue Bonds, Ana G. Mendez University System, Series 1999, 5.375%, 2/01/19	2/09 at 101
480	Tucson Industrial Development Authority, Arizona, Charter School Revenue Bonds, Arizona Agribusiness and Equine Center Charter School, Series 2004A, 6.125%, 9/01/34	9/14 at 100
	University of Arizona, Certificates of Participation, Series 2002A:	
750	5.500%, 6/01/18 - AMBAC Insured	6/12 at 100
500	5.125%, 6/01/22 - AMBAC Insured	6/12 at 100

---

3,760 Total Education and Civic Organizations

---

HEALTH CARE - 16.0% (10.6% OF TOTAL INVESTMENTS)

400	Arizona Health Facilities Authority, Hospital Revenue Bonds, Catholic Healthcare West, Series 1999A, 6.625%, 7/01/20	7/10 at 101
735	Arizona Health Facilities Authority, Hospital System Revenue Bonds, Phoenix Children's Hospital, Series 2002A, 6.250%, 2/15/21	2/12 at 101
600	Arizona Health Facilities Authority, Revenue Bonds, Blood Systems Inc., Series 2004, 5.000%, 4/01/20	4/14 at 100
400	Glendale Industrial Development Authority, Arizona, Revenue Bonds, John C. Lincoln Health Network, Series 2005B, 5.000%, 12/01/37	12/15 at 100
320	Maricopa County Industrial Development Authority, Arizona, Health Facilities Revenue Bonds, Mayo Clinic, Series 2006, 5.000%, 11/15/36	5/16 at 100
1,375	Maricopa County Industrial Development Authority, Arizona, Health Facility Revenue Bonds, Catholic Healthcare West, Series 2004A, 5.375%, 7/01/23	7/14 at 100
500	Maricopa County Industrial Development Authority, Arizona, Hospital Revenue Bonds, Mayo Clinic Hospital, Series 1998, 5.250%, 11/15/37	5/08 at 101
225	Maricopa County, Arizona, Hospital Revenue Bonds, Sun Health Corporation, Series 2005, 5.000%, 4/01/16	4/15 at 100
1,000	Yavapai County Industrial Development Authority, Arizona, Hospital Revenue Bonds, Yavapai Regional Medical Center, Series 2003A, 6.000%, 8/01/33	8/13 at 100

---

5,555 Total Health Care

---

HOUSING/MULTIFAMILY - 8.1% (5.4% OF TOTAL INVESTMENTS)

Edgar Filing: NUVEEN ARIZONA DIVIDEND ADVANTAGE MUNICIPAL FUND 3 - Form N-CSRS

1,000	Maricopa County Industrial Development Authority, Arizona, GNMA Collateralized Multifamily Housing Revenue Refunding Bonds, Pine Ridge, Cambridge Court, Cove on 44th and Fountain Place Apartments, Series 2001A-1, 6.000%, 10/20/31	10/11 at 105
325	Phoenix Industrial Development Authority, Arizona, GNMA Collateralized Multifamily Housing Revenue Bonds, Park Lee Apartments, Series 2004A, 5.050%, 10/20/44 (Alternative Minimum Tax)	4/15 at 100
1,425	Phoenix Industrial Development Authority, Arizona, GNMA Collateralized Multifamily Housing Revenue Bonds, Summit Apartments, Series 2002, 6.450%, 7/20/32	7/12 at 105
-----		
2,750	Total Housing/Multifamily	
-----		

24

PRINCIPAL AMOUNT (000)	DESCRIPTION (1)	OPTIONAL C PROVISIONS
-----		
	HOUSING/SINGLE FAMILY - 2.9% (2.0% OF TOTAL INVESTMENTS)	
\$ 15	Pima County Industrial Development Authority, Arizona, FNMA/GNMA Single Family Mortgage Revenue Bonds, Series 2001A-1, 5.350%, 11/01/24 (Alternative Minimum Tax)	11/10 at 101
1,000	The Industrial Development Authority of The City of Tucson, Arizona, Tax-Exempt Single Family Mortgage Revenue Bonds, Series 2007A-1, 5.100%, 7/01/38	1/17 at 103
-----		
1,015	Total Housing/Single Family	
-----		
	TAX OBLIGATION/GENERAL - 27.6% (18.3% OF TOTAL INVESTMENTS)	
1,725	Chandler, Arizona, General Obligation Bonds, Series 2002, 5.000%, 7/01/17	7/12 at 100
1,000	Maricopa County School District 6, Arizona, General Obligation Refunding Bonds, Washington Elementary School, Series 2002A, 5.375%, 7/01/16 - FSA Insured	No Opt. C
1,165	Maricopa County Unified School District 69, Paradise Valley, Arizona, General Obligation Refunding Bonds, Series 2002A, 5.250%, 7/01/14 - FGIC Insured	No Opt. C
375	Maricopa County Union High School District 210 Phoenix, Arizona, General Obligation Bonds, Series 2006C, 5.000%, 7/01/24 - MBIA Insured	7/16 at 100
1,405	Mesa, Arizona, General Obligation Bonds, Series 2002, 5.375%, 7/01/15 - FGIC Insured	No Opt. C
	Phoenix, Arizona, Various Purpose General Obligation Bonds,	

Edgar Filing: NUVEEN ARIZONA DIVIDEND ADVANTAGE MUNICIPAL FUND 3 - Form N-CSRS

	Series 2002B:	
1,700	5.000%, 7/01/22	7/12 at 100
500	5.000%, 7/01/27	7/12 at 100
1,000	Pinal County Unified School District 43, Apache Junction, Arizona, General Obligation Refunding Bonds, Series 2001, 5.750%, 7/01/15 - FGIC Insured	No Opt. C
510	Scottsdale, Arizona, General Obligation Bonds, Series 2002, 5.000%, 7/01/24	7/11 at 100
-----		
9,380	Total Tax Obligation/General	
-----		

TAX OBLIGATION/LIMITED - 49.4% (32.9% OF TOTAL INVESTMENTS)

	Arizona State, Certificates of Participation, Series 2002A:	
750	5.000%, 11/01/17 - MBIA Insured	5/12 at 100
1,000	5.000%, 11/01/18 - MBIA Insured	5/12 at 100
500	5.000%, 11/01/20 - MBIA Insured	5/12 at 100
138	Centerra Community Facilities District, Goodyear, Arizona, General Obligation Bonds, Series 2005, 5.500%, 7/15/29	7/15 at 100
291	Estrella Mountain Ranch Community Facilities District, Goodyear, Arizona, Special Assessment Lien Bonds, Series 2001A, 7.875%, 7/01/25	7/10 at 102
670	Goodyear Community Facilities Utility District 1, Arizona, General Obligation Bonds, Series 2003, 5.350%, 7/15/28 - ACA Insured	7/13 at 100
650	Marana, Arizona, Tangerine Farms Road Improvement District Revenue Bonds, Series 2006, 4.600%, 1/01/26	7/16 at 100
870	Maricopa County Public Finance Corporation, Arizona, Lease Revenue Bonds, Series 2001, 5.500%, 7/01/15 - AMBAC Insured	7/11 at 100
	Maricopa County Stadium District, Arizona, Revenue Refunding Bonds, Series 2002:	
840	5.375%, 6/01/18 - AMBAC Insured	6/12 at 100
2,645	5.375%, 6/01/19 - AMBAC Insured	6/12 at 100
530	Palm Valley Community Facility District 3, Goodyear, Arizona, General Obligation Bonds, Series 2006, 5.300%, 7/15/31	7/16 at 100
140	Parkway Community Facilities District 1, Prescott Valley, Arizona, General Obligation Bonds, Series 2006, 5.350%, 7/15/31	7/16 at 100
1,500	Phoenix Industrial Development Authority, Arizona, Government Bonds, Capitol Mall LLC II, Series 2001, 5.250%, 9/15/16 - AMBAC Insured	3/12 at 100
1,070	Pinal County Industrial Development Authority, Arizona, Correctional Facilities Contract Revenue Bonds, Florence West Prison LLC, Series 2002A, 5.000%, 10/01/18 - ACA Insured	No Opt. C
111	Puerto Rico Infrastructure Financing Authority, Special Tax	No Opt. C

Edgar Filing: NUVEEN ARIZONA DIVIDEND ADVANTAGE MUNICIPAL FUND 3 - Form N-CSRS

Bonds, Residual Series 1534, 5.655%, 7/01/42 -  
 AMBAC Insured (IF)

25

Nuveen Arizona Dividend Advantage Municipal Fund 2 (NKR) (continued)  
 Portfolio of INVESTMENTS January 31, 2007 (Unaudited)

PRINCIPAL AMOUNT (000)	DESCRIPTION (1)	OPTIONAL C PROVISIONS
-----		
	TAX OBLIGATION/LIMITED (continued)	
\$ 7,065	Puerto Rico Infrastructure Financing Authority, Special Tax Revenue Bonds, Series 2005A, 0.000%, 7/01/42 - FGIC Insured (UB)	No Opt. C
1,000	Puerto Rico Public Buildings Authority, Guaranteed Government Facilities Revenue Refunding Bonds, Series 2002D, 5.125%, 7/01/24	7/12 at 100
960	San Luis Civic Improvement Corporation, Arizona, Municipal Facilities Excise Tax Revenue Bonds, Series 2005, 5.000%, 7/01/25 - XLCA Insured	7/15 at 100
750	Vistancia Community Facilities District, Arizona, Restricted General Obligation Bonds, Series 2005, 5.750%, 7/15/24	7/15 at 100
560	Watson Road Community Facilities District, Arizona, Special Assessment Revenue Bonds, Series 2005, 6.000%, 7/01/30	7/16 at 100
350	Westpark Community Facilities District, Buckeye, Arizona, General Obligation Tax Increment Bonds Series 2006, 5.250%, 7/15/31	7/16 at 100
640	Yuma Municipal Property Corporation, Arizona, Municipal Facilities Tax Revenue Bonds, Series 2001, 5.000%, 7/01/21 - AMBAC Insured	7/10 at 100
-----		
23,030	Total Tax Obligation/Limited	
-----		

TRANSPORTATION - 5.6% (3.7% OF TOTAL INVESTMENTS)

1,000	Phoenix Civic Improvement Corporation, Arizona, Senior Lien Airport Revenue Bonds, Series 1998A, 5.000%, 7/01/25 - FSA Insured	7/08 at 101
1,000	Phoenix, Arizona, Civic Improvement Corporation, Senior Lien Airport Revenue Bonds, Series 2002B, 5.250%, 7/01/27 - FGIC Insured (Alternative Minimum Tax)	7/12 at 100
-----		
2,000	Total Transportation	
-----		

U.S. GUARANTEED - 14.1% (9.4% OF TOTAL INVESTMENTS) (4)



Edgar Filing: NUVEEN ARIZONA DIVIDEND ADVANTAGE MUNICIPAL FUND 3 - Form N-CSRS

715	Arizona State University, System Revenue Bonds, Series 2002, 5.750%, 7/01/27 (Pre-refunded 7/01/12) - FGIC Insured	7/12 at 100
100	Maricopa County Unified School District 89, Dysart, Arizona, General Obligation Bonds, Series 2004B, 5.250%, 7/01/20 (Pre-refunded 7/01/14) - FSA Insured	7/14 at 100
1,000	Mesa, Arizona, Street and Highway User Tax Revenue Bonds, Series 2004, 5.125%, 7/01/23 (Pre-refunded 7/01/14) - FSA Insured	7/14 at 100
1,000	Mesa, Arizona, Utility System Revenue Bonds, Series 2002, 5.000%, 7/01/20 (Pre-refunded 7/01/11) - FGIC Insured	7/11 at 100
1,000	Scottsdale Industrial Development Authority, Arizona, Hospital Revenue Bonds, Scottsdale Healthcare, Series 2001, 5.800%, 12/01/31 (Pre-refunded 12/01/11)	12/11 at 101
990	Scottsdale, Arizona, General Obligation Bonds, Series 2002, 5.000%, 7/01/24 (Pre-refunded 7/01/11)	7/11 at 100

---

4,805	Total U.S. Guaranteed	
-------	-----------------------	--

---

UTILITIES - 4.1% (2.7% OF TOTAL INVESTMENTS)

1,115	Arizona Power Authority, Special Obligation Power Resource Revenue Refunding Crossover Bonds, Hoover Project, Series 2001, 5.250%, 10/01/15	No Opt. C
270	Puerto Rico Electric Power Authority, Power Revenue Bonds, Series 2005RR, 5.000%, 7/01/27 - XLCA Insured	7/15 at 100

---

1,385	Total Utilities	
-------	-----------------	--

---

WATER AND SEWER - 11.7% (7.8% OF TOTAL INVESTMENTS)

500	Maricopa County Industrial Development Authority, Arizona, Water System Improvement Revenue Bonds, Chaparral City Water Company, Series 1997A, 5.400%, 12/01/22 - AMBAC Insured (Alternative Minimum Tax)	12/07 at 102
360	Oro Valley Municipal Property Corporation, Arizona, Senior Lien Water Revenue Bonds, Series 2003, 5.000%, 7/01/23 - MBIA Insured	7/13 at 100

PRINCIPAL AMOUNT (000)	DESCRIPTION (1)	OPTIONAL C PROVISIONS
------------------------	-----------------	-----------------------

---

WATER AND SEWER (continued)

Edgar Filing: NUVEEN ARIZONA DIVIDEND ADVANTAGE MUNICIPAL FUND 3 - Form N-CSRS

\$	320	Phoenix Civic Improvement Corporation, Arizona, Junior Lien Wastewater System Revenue Bonds, Series 2004, 5.000%, 7/01/24 - MBIA Insured	7/14 at 100
	765	Phoenix Civic Improvement Corporation, Arizona, Junior Lien Water System Revenue Bonds, Series 2005, 5.000%, 7/01/23 - MBIA Insured	7/15 at 100
	1,000	Phoenix Civic Improvement Corporation, Arizona, Junior Lien Water System Revenue Refunding Bonds, Series 2001, 5.500%, 7/01/22 - FGIC Insured	No Opt. C
	1,000	Tucson, Arizona, Water System Revenue Refunding Bonds, Series 2002, 5.500%, 7/01/18 - FGIC Insured	7/12 at 102

---

	3,945	Total Water and Sewer	
--	-------	-----------------------	--

---

\$	57,625	Total Investments (cost \$52,824,958) - 150.4%	
----	--------	--	--

---

Floating Rate Obligations - (2.7)%

---

Other Assets Less Liabilities - 2.7%

---

Preferred Shares, at Liquidation Value - (50.4)%

---

Net Assets Applicable to Common Shares - 100%

---

- (1) All percentages shown in the Portfolio of Investments are based on net assets applicable to Common shares unless otherwise noted.
  - (2) Optional Call Provisions: Dates (month and year) and prices of the earliest optional call or redemption. There may be other call provisions at varying prices at later dates. Certain mortgage-backed securities may be subject to periodic principal paydowns.
  - (3) Ratings: Using the higher of Standard & Poor's or Moody's rating. Ratings below BBB by Standard & Poor's Group or Baa by Moody's Investor Service, Inc. are considered to be below investment grade.
  - (4) Backed by an escrow or trust containing sufficient U.S. Government or U.S. Government agency securities which ensure the timely payment of principal and interest. Such investments are normally considered to be equivalent to AAA rated securities.
- N/R Not rated.
- (IF) Inverse floating rate investment.
- (UB) Underlying bond of an inverse floating rate trust reflected as a financing transaction pursuant to the provisions of SFAS No. 140.

See accompanying notes to financial statements.

Nuveen Arizona Dividend Advantage Municipal Fund 3 (NXE)  
Portfolio of  
INVESTMENTS January 31, 2007 (Unaudited)

PRINCIPAL AMOUNT (000)	DESCRIPTION (1)	OPTIONAL C PROVISIONS
-----		
CONSUMER STAPLES - 1.3% (1.0% OF TOTAL INVESTMENTS)		
\$ 570	Puerto Rico, The Children's Trust Fund, Tobacco Settlement Asset-Backed Refunding Bonds, Series 2002, 5.375%, 5/15/33	5/12 at 100
-----		
EDUCATION AND CIVIC ORGANIZATIONS - 13.7% (9.1% OF TOTAL INVESTMENTS)		
1,250	Arizona State University, System Revenue Bonds, Series 2005, 5.000%, 7/01/20 - AMBAC Insured	7/15 at 100
1,130	Energy Management Services LLC, Arizona State University, Energy Conservation Revenue Bonds, Main Campus Project, Series 2002, 5.250%, 7/01/18 - MBIA Insured	7/12 at 100
270	Glendale Industrial Development Authority, Arizona, Revenue Bonds, Midwestern University, Series 1998A, 5.375%, 5/15/28	5/08 at 101
540	Pima County Industrial Development Authority, Arizona, Charter School Revenue Bonds, Noah Webster Basic Schools Inc., Series 2004, 6.000%, 12/15/24	12/14 at 100
565	Tucson Industrial Development Authority, Arizona, Charter School Revenue Bonds, Arizona Agribusiness and Equine Center Charter School, Series 2004A, 6.125%, 9/01/34	9/14 at 100
2,000	University of Arizona, Certificates of Participation, Series 2002B, 5.125%, 6/01/20 - AMBAC Insured	6/12 at 100
-----		
5,755	Total Education and Civic Organizations	
-----		
HEALTH CARE - 18.2% (12.2% OF TOTAL INVESTMENTS)		
300	Arizona Health Facilities Authority, Hospital Revenue Bonds, Catholic Healthcare West, Series 1999A, 6.625%, 7/01/20	7/10 at 101
Arizona Health Facilities Authority, Hospital System Revenue Bonds, Phoenix Children's Hospital, Series 1999A:		
350	6.125%, 11/15/22	11/09 at 100
520	6.250%, 11/15/29	11/09 at 100
625	Arizona Health Facilities Authority, Revenue Bonds, Blood Systems Inc., Series 2004, 5.000%, 4/01/20	4/14 at 100
475	Glendale Industrial Development Authority, Arizona, Revenue Bonds, John C. Lincoln Health Network, Series 2005B, 5.000%, 12/01/37	12/15 at 100

Edgar Filing: NUVEEN ARIZONA DIVIDEND ADVANTAGE MUNICIPAL FUND 3 - Form N-CSRS

390	Maricopa County Industrial Development Authority, Arizona, Health Facilities Revenue Bonds, Mayo Clinic, Series 2006, 5.000%, 11/15/36	5/16 at 100
1,825	Maricopa County Industrial Development Authority, Arizona, Health Facility Revenue Bonds, Catholic Healthcare West, Series 2004A, 5.375%, 7/01/23	7/14 at 100
2,000	Maricopa County Industrial Development Authority, Arizona, Hospital Revenue Bonds, Mayo Clinic Hospital, Series 1998, 5.250%, 11/15/37	5/08 at 101
270	Maricopa County, Arizona, Hospital Revenue Bonds, Sun Health Corporation, Series 2005, 5.000%, 4/01/16	4/15 at 100
1,000	Yavapai County Industrial Development Authority, Arizona, Hospital Revenue Bonds, Yavapai Regional Medical Center, Series 2003A, 6.000%, 8/01/33	8/13 at 100
<hr/>		
7,755	Total Health Care	

28

PRINCIPAL AMOUNT (000)	DESCRIPTION (1)	OPTIONAL C PROVISIONS
HOUSING/MULTIFAMILY - 4.5% (3.0% OF TOTAL INVESTMENTS)		
\$ 1,545	Phoenix Industrial Development Authority, Arizona, GNMA Collateralized Multifamily Housing Revenue Bonds, Campaigne Place on Jackson, Series 2001, 5.600%, 6/20/21 (Alternative Minimum Tax)	6/11 at 102
380	Phoenix Industrial Development Authority, Arizona, GNMA Collateralized Multifamily Housing Revenue Bonds, Park Lee Apartments, Series 2004A, 5.050%, 10/20/44 (Alternative Minimum Tax)	4/15 at 100
<hr/>		
1,925	Total Housing/Multifamily	
<hr/>		
HOUSING/SINGLE FAMILY - 2.7% (1.8% OF TOTAL INVESTMENTS)		
1,175	The Industrial Development Authority of The City of Tucson, Arizona, Tax-Exempt Single Family Mortgage Revenue Bonds, Series 2007A-1, 5.100%, 7/01/38	1/17 at 103
<hr/>		
INDUSTRIALS - 2.1% (1.4% OF TOTAL INVESTMENTS)		
945	Yavapai County Industrial Development Authority, Arizona, Solid Waste Disposal Revenue Bonds, Waste Management Inc., Series 2003B, 4.450%, 3/01/28 (Mandatory put 3/01/08) (Alternative Minimum Tax)	No Opt. C

Edgar Filing: NUVEEN ARIZONA DIVIDEND ADVANTAGE MUNICIPAL FUND 3 - Form N-CSRS

TAX OBLIGATION/GENERAL - 9.1% (6.1% OF TOTAL INVESTMENTS)

660	Chandler, Arizona, General Obligation Bonds, Series 2002, 5.000%, 7/01/18	7/12 at 100
730	Glendale, Arizona, General Obligation Refunding Bonds, Series 2002, 5.000%, 7/01/19	7/11 at 100
445	Maricopa County Union High School District 210 Phoenix, Arizona, General Obligation Bonds, Series 2006C, 5.000%, 7/01/24 - MBIA Insured	7/16 at 100
1,575	Maricopa County Union High School District 210, Phoenix, Arizona, General Obligation Bonds, Series 2004A, 5.000%, 7/01/20 - FSA Insured	7/14 at 100
440	Tucson, Arizona, General Obligation Bonds, Series 2001B, 5.000%, 7/01/20	7/11 at 100

3,850 Total Tax Obligation/General

TAX OBLIGATION/LIMITED - 38.3% (25.5% OF TOTAL INVESTMENTS)

2,000	Arizona State Transportation Board, Highway Revenue Refunding Bonds, Series 2002A, 5.250%, 7/01/18	7/12 at 102
158	Centerra Community Facilities District, Goodyear, Arizona, General Obligation Bonds, Series 2005, 5.500%, 7/15/29	7/15 at 100
2,250	DC Ranch Community Facilities District, Scottsdale, Arizona, General Obligation Bonds, Series 2002, 5.000%, 7/15/27 - AMBAC Insured	7/13 at 100
341	Estrella Mountain Ranch Community Facilities District, Goodyear, Arizona, Special Assessment Lien Bonds, Series 2001A, 7.875%, 7/01/25	7/10 at 102
800	Goodyear Community Facilities Utility District 1, Arizona, General Obligation Bonds, Series 2003, 5.350%, 7/15/28 - ACA Insured	7/13 at 100
525	Greater Arizona Development Authority, Infrastructure Revenue Bonds, Series 2006A, 5.000%, 8/01/23 - MBIA Insured	8/16 at 100
785	Marana, Arizona, Tangerine Farms Road Improvement District Revenue Bonds, Series 2006, 4.600%, 1/01/26	7/16 at 100
2,000	Mohave County, Arizona, Certificates of Participation, Series 2004, 5.250%, 7/01/19 - AMBAC Insured	7/14 at 100
640	Palm Valley Community Facility District 3, Goodyear, Arizona, General Obligation Bonds, Series 2006, 5.300%, 7/15/31	7/16 at 100
160	Parkway Community Facilities District 1, Prescott Valley, Arizona, General Obligation Bonds, Series 2006, 5.350%, 7/15/31	7/16 at 100

Edgar Filing: NUVEEN ARIZONA DIVIDEND ADVANTAGE MUNICIPAL FUND 3 - Form N-CSRS

1,250	Pinal County Industrial Development Authority, Arizona, Correctional Facilities Contract Revenue Bonds, Florence West Prison LLC, Series 2002A, 5.000%, 10/01/18 - ACA Insured	No Opt. C
-------	--	-----------

29

Nuveen Arizona Dividend Advantage Municipal Fund 3 (NXE) (continued)  
Portfolio of INVESTMENTS January 31, 2007 (Unaudited)

PRINCIPAL AMOUNT (000)	DESCRIPTION (1)	OPTIONAL C PROVISIONS
TAX OBLIGATION/LIMITED (continued)		
\$ 136	Puerto Rico Infrastructure Financing Authority, Special Tax Bonds, Residual Series 1534, 5.655%, 7/01/42 - AMBAC Insured (IF)	No Opt. C
8,470	Puerto Rico Infrastructure Financing Authority, Special Tax Revenue Bonds, Series 2005A, 0.000%, 7/01/42 - FGIC Insured (UB)	No Opt. C
1,130	San Luis Civic Improvement Corporation, Arizona, Municipal Facilities Excise Tax Revenue Bonds, Series 2005, 5.000%, 7/01/25 - XLCA Insured	7/15 at 100
1,250	Vistancia Community Facilities District, Arizona, Restricted General Obligation Bonds, Series 2005, 5.750%, 7/15/24	7/15 at 100
665	Watson Road Community Facilities District, Arizona, Special Assessment Revenue Bonds, Series 2005, 6.000%, 7/01/30	7/16 at 100
425	Westpark Community Facilities District, Buckeye, Arizona, General Obligation Tax Increment Bonds Series 2006, 5.250%, 7/15/31	7/16 at 100
22,985 Total Tax Obligation/Limited		
TRANSPORTATION - 13.5% (9.0% OF TOTAL INVESTMENTS)		
Phoenix, Arizona, Civic Improvement Corporation, Senior Lien Airport Revenue Bonds, Series 2002B:		
1,000	5.750%, 7/01/16 - FGIC Insured (Alternative Minimum Tax)	7/12 at 100
2,300	5.250%, 7/01/21 - FGIC Insured (Alternative Minimum Tax)	7/12 at 100
2,450	Tucson Airport Authority Inc., Arizona, Revenue Refunding Bonds, Series 2001B, 5.000%, 6/01/20 - AMBAC Insured (Alternative Minimum Tax)	6/11 at 100
5,750 Total Transportation		

U.S. GUARANTEED - 23.2% (15.4% OF TOTAL INVESTMENTS) (4)

Edgar Filing: NUVEEN ARIZONA DIVIDEND ADVANTAGE MUNICIPAL FUND 3 - Form N-CSRS

1,000	Arizona Health Facilities Authority, Hospital System Revenue Bonds, John C. Lincoln Health Network, Series 2000, 6.875%, 12/01/20 (Pre-refunded 12/01/10)	12/10 at 102
1,760	Arizona State University, System Revenue Bonds, Series 2002, 5.750%, 7/01/27 (Pre-refunded 7/01/12) - FGIC Insured	7/12 at 100
2,660	Arizona Tourism and Sports Authority, Tax Revenue Bonds, Multipurpose Stadium Facility Project, Series 2003A, 5.375%, 7/01/20 (Pre-refunded 7/01/13) - MBIA Insured	7/13 at 100
1,250	Scottsdale Industrial Development Authority, Arizona, Hospital Revenue Bonds, Scottsdale Healthcare, Series 2001, 5.800%, 12/01/31 (Pre-refunded 12/01/11)	12/11 at 101
2,770	Tempe, Arizona, Excise Tax Revenue Refunding Bonds, Series 2003, 5.000%, 7/01/22 (Pre-refunded 7/01/13)	7/13 at 100
-----		
9,440	Total U.S. Guaranteed	
-----		

UTILITIES - 12.1% (8.1% OF TOTAL INVESTMENTS)

1,250	Maricopa County Pollution Control Corporation, Arizona, Revenue Bonds, Arizona Public Service Company - Palo Verde Project, Series 2002A, 5.050%, 5/01/29 - AMBAC Insured	11/12 at 100
	Puerto Rico Electric Power Authority, Power Revenue Bonds, Series 2005RR:	
1,660	5.000%, 7/01/26 - XLCA Insured	7/15 at 100
935	5.000%, 7/01/27 - XLCA Insured	7/15 at 100
	Salt River Project Agricultural Improvement and Power District, Arizona, Electric System Revenue Bonds, Series 2002B:	
270	5.000%, 1/01/22	1/13 at 100
1,000	5.000%, 1/01/31	1/13 at 100
-----		
5,115	Total Utilities	
-----		

30

PRINCIPAL AMOUNT (000)	DESCRIPTION (1)	OPTIONAL C PROVISIONS
-----		
WATER AND SEWER - 11.1% (7.4% OF TOTAL INVESTMENTS)		
\$ 405	Oro Valley Municipal Property Corporation, Arizona, Senior Lien Water Revenue Bonds, Series 2003, 5.000%, 7/01/23 - MBIA Insured	7/13 at 100
380	Phoenix Civic Improvement Corporation, Arizona, Junior Lien Wastewater System Revenue Bonds, Series 2004, 5.000%, 7/01/24 - MBIA Insured	7/14 at 100
1,000	Phoenix Civic Improvement Corporation, Arizona, Junior Lien	7/11 at 100

Edgar Filing: NUVEEN ARIZONA DIVIDEND ADVANTAGE MUNICIPAL FUND 3 - Form N-CSRS

Wastewater System Revenue Refunding Bonds, Series 2001,  
5.125%, 7/01/21 - FGIC Insured

2,000	Phoenix Civic Improvement Corporation, Arizona, Junior Lien Water System Revenue Bonds, Series 2002, 5.000%, 7/01/18 - FGIC Insured	7/12 at 100
920	Phoenix Civic Improvement Corporation, Arizona, Junior Lien Water System Revenue Bonds, Series 2005, 5.000%, 7/01/23 - MBIA Insured	7/15 at 100

4,705	Total Water and Sewer	
\$ 69,970	Total Investments (cost \$64,637,108) - 149.8%	
	Floating Rate Obligations - (2.7)%	
	Other Assets Less Liabilities - 2.4%	
	Preferred Shares, at Liquidation Value - (49.5)%	
	Net Assets Applicable to Common Shares - 100%	

- (1) All percentages shown in the Portfolio of Investments are based on net assets applicable to Common shares unless otherwise noted.
  - (2) Optional Call Provisions: Dates (month and year) and prices of the earliest optional call or redemption. There may be other call provisions at varying prices at later dates. Certain mortgage-backed securities may be subject to periodic principal paydowns.
  - (3) Ratings: Using the higher of Standard & Poor's or Moody's rating. Ratings below BBB by Standard & Poor's Group or Baa by Moody's Investor Service, Inc. are considered to be below investment grade.
  - (4) Backed by an escrow or trust containing sufficient U.S. Government or U.S. Government agency securities which ensure the timely payment of principal and interest. Such investments are normally considered to be equivalent to AAA rated securities.
- N/R Not rated.
- (IF) Inverse floating rate investment.
- (UB) Underlying bond of an inverse floating rate trust reflected as a financing transaction pursuant to the provisions of SFAS No. 140.

See accompanying notes to financial statements.



Edgar Filing: NUVEEN ARIZONA DIVIDEND ADVANTAGE MUNICIPAL FUND 3 - Form N-CSRS

INVESTMENTS January 31, 2007 (Unaudited)

PRINCIPAL AMOUNT (000)	DESCRIPTION (1)	OPTIONAL C PROVISIONS
-----		
CONSUMER STAPLES - 1.9% (1.3% OF TOTAL INVESTMENTS)		
\$ 2,680	Puerto Rico, The Children's Trust Fund, Tobacco Settlement Asset-Backed Refunding Bonds, Series 2002, 5.375%, 5/15/33	5/12 at 100
-----		
EDUCATION AND CIVIC ORGANIZATIONS - 18.6% (12.5% OF TOTAL INVESTMENTS)		
6,000	Board of Regents, University of Texas System, Financing System Revenue Bonds, Series 2006F, 4.250%, 8/15/36 (UB)	2/17 at 100
Red River Education Finance Corporation, Texas, Revenue Bonds, Hockaday School, Series 2005:		
1,170	5.000%, 5/15/27	5/15 at 100
1,230	5.000%, 5/15/28	5/15 at 100
1,290	5.000%, 5/15/29	5/15 at 100
Texas Public Finance Authority, Revenue Bonds, Texas Southern University Financing System, Series 2003:		
1,710	5.000%, 5/01/18 - FGIC Insured	5/13 at 100
1,795	5.000%, 5/01/19 - FGIC Insured	5/13 at 100
1,885	5.000%, 5/01/20 - FGIC Insured	5/13 at 100
1,665	Texas State University System, Financing Revenue Bonds, Series 2004, 5.000%, 3/15/24 - FSA Insured	9/14 at 100
2,000	Texas State University System, Financing Revenue Refunding Bonds, Series 2002, 5.000%, 3/15/20 - FSA Insured	3/12 at 100
2,330	Universal City Education Facilities Corporation, Texas, Revenue Bonds, Wayland Baptist University Project, Series 2001, 5.625%, 3/01/26	3/11 at 102
5,000	University of North Texas, Financing System Revenue Bonds, Series 2001, 5.000%, 4/15/24 - FSA Insured	4/12 at 100
-----		
26,075	Total Education and Civic Organizations	
-----		
ENERGY - 2.1% (1.4% OF TOTAL INVESTMENTS)		
3,000	Gulf Coast Waste Disposal Authority, Texas, Waste Disposal Revenue Bonds, Valero Energy Corporation Project, Series 1998, 5.600%, 4/01/32 (Alternative Minimum Tax)	4/08 at 102
-----		
HEALTH CARE - 13.3% (9.0% OF TOTAL INVESTMENTS)		
3,500	Abilene Health Facilities Development Corporation, Texas, Hospital Revenue Refunding and Improvement Bonds, Hendrick Medical Center Project, Series 1995C, 6.150%, 9/01/25 - MBIA Insured	3/07 at 101

Edgar Filing: NUVEEN ARIZONA DIVIDEND ADVANTAGE MUNICIPAL FUND 3 - Form N-CSRS

	Brazoria County Health Facilities Development Corporation, Texas, Revenue Bonds, Brazosport Memorial Hospital, Series 2004:		
1,745	5.250%, 7/01/20 - RAAI Insured		7/14 at 100
1,835	5.250%, 7/01/21 - RAAI Insured		7/14 at 100
5,750	Midland County Hospital District, Texas, Hospital Revenue Bonds, Series 1992, 0.000%, 6/01/11		No Opt. C
2,000	North Central Texas Health Facilities Development Corporation, Hospital Revenue Bonds, Baylor Healthcare System, Series 2001A, 5.125%, 5/15/29		5/11 at 100
2,000	Richardson Hospital Authority, Texas, Revenue Bonds, Richardson Regional Medical Center, Series 2004, 5.875%, 12/01/24		12/13 at 100
2,000	Tom Green County Health Facilities Development Corporation, Texas, Hospital Revenue Bonds, Shannon Health System Project, Series 2001, 6.750%, 5/15/21		5/11 at 101
1,000	Tyler Health Facilities Development Corporation, Texas, Hospital Revenue Bonds, Mother Frances Hospital Regional Healthcare Center, Series 2001, 6.000%, 7/01/31		7/12 at 100
-----			
19,830	Total Health Care		
-----			

32

PRINCIPAL AMOUNT (000)	DESCRIPTION (1)	OPTIONAL C PROVISIONS
-----		
	HOUSING/MULTIFAMILY - 3.5% (2.3% OF TOTAL INVESTMENTS)	
	Bexar County Housing Finance Corporation, Texas, Insured Multifamily Housing Revenue Bonds, Waters at Northern Hills Apartments Project, Series 2001A:	
\$ 2,000	6.000%, 8/01/31 - MBIA Insured	8/11 at 102
750	6.050%, 8/01/36 - MBIA Insured	8/11 at 102
2,064	Houston Housing Finance Corporation, Texas, GNMA Collateralized Mortgage Multifamily Housing Revenue Bonds, RRG Apartments Project, Series 2001, 6.250%, 9/20/35	9/11 at 105
-----		
4,814	Total Housing/Multifamily	
-----		

	HOUSING/SINGLE FAMILY - 3.9% (2.7% OF TOTAL INVESTMENTS)	
2,416	El Paso Housing Finance Corporation, Texas, GNMA Collateralized Single Family Mortgage Revenue Bonds, Series 2001A-3, 6.180%, 4/01/33	4/11 at 106
110	Galveston Property Finance Authority Inc., Texas, Single Family Mortgage Revenue Bonds, Series 1991A,	3/07 at 100

Edgar Filing: NUVEEN ARIZONA DIVIDEND ADVANTAGE MUNICIPAL FUND 3 - Form N-CSRS

	8.500%, 9/01/11	
2,900	Texas Department of Housing and Community Affairs, Single Family Mortgage Bonds, Series 2002B, 5.550%, 9/01/33 - MBIA Insured (Alternative Minimum Tax)	3/12 at 100
20	Victoria Housing Finance Corporation, Texas, FNMA Single Family Mortgage Revenue Refunding Bonds, Series 1995, 8.125%, 1/01/11	No Opt. C
-----		
5,446	Total Housing/Single Family	
-----		
LONG-TERM CARE - 7.1% (4.8% OF TOTAL INVESTMENTS)		
Bell County Health Facilities Development Corporation, Texas, Retirement Facility Revenue Bonds, Buckner Retirement Services Inc. Obligated Group, Series 1998:		
3,400	5.250%, 11/15/19	11/08 at 101
5,000	5.250%, 11/15/28	11/08 at 101
Bexar County, Texas, Health Facilities Development Corporation Revenue Bonds, Army Retirement Residence, Series 2007:		
1,000	5.000%, 7/01/27	7/17 at 100
600	5.000%, 7/01/37	7/17 at 100
-----		
10,000	Total Long-Term Care	
-----		
MATERIALS - 4.3% (2.9% OF TOTAL INVESTMENTS)		
3,000	Cass County Industrial Development Corporation, Texas, Environmental Improvement Revenue Bonds, International Paper Company, Series 2000A, 6.600%, 3/15/24 (Alternative Minimum Tax)	3/10 at 101
3,000	Guadalupe-Blanco River Authority, Texas, Sewage and Solid Waste Disposal Facility Bonds, E.I. DuPont de Nemours and Company Project, Series 1996, 6.400%, 4/01/26 (Alternative Minimum Tax)	4/07 at 101
-----		
6,000	Total Materials	
-----		
TAX OBLIGATION/GENERAL - 45.9% (30.9% OF TOTAL INVESTMENTS)		
1,260	Bexar County, Texas, Combined Tax and Revenue Certificates of Obligation, Series 2004, 5.000%, 6/15/19	6/14 at 100
2,500	Borger Independent School District, Hutchison County, Texas, General Obligation Bonds, Series 2006, 5.000%, 2/15/36	2/16 at 100
1,190	Canutillo Independent School District, El Paso County, Texas, General Obligation Bonds, Series 2006A, 5.000%, 8/15/22	8/15 at 100
4,130	Coppell Independent School District, Dallas County, Texas,	8/09 at 75

Edgar Filing: NUVEEN ARIZONA DIVIDEND ADVANTAGE MUNICIPAL FUND 3 - Form N-CSRS

	Unlimited Tax School Building and Refunding Bonds, Series 1992, 0.000%, 8/15/14 - MBIA Insured	
1,275	Copperas Cove, Texas, Certificates of Obligation, Series 2003, 5.000%, 8/15/23 - MBIA Insured	8/12 at 100
2,305	Corpus Christi, Texas, Combination Tax and Municipal Hotel Occupancy Tax Revenue Certificates of Obligation, Series 2002, 5.500%, 9/01/21 - FSA Insured	9/12 at 100
2,595	Denton County, Texas, Permanent Improvement General Obligation Bonds, Series 2005, 5.000%, 7/15/25	7/12 at 100
2,110	Duncanville Independent School District, Dallas County, Texas, General Obligation Bonds, Series 2005, 5.000%, 2/15/26	2/15 at 100

33

Nuveen Texas Quality Income Municipal Fund (NTX) (continued)  
Portfolio of INVESTMENTS January 31, 2007 (Unaudited)

PRINCIPAL AMOUNT (000)	DESCRIPTION (1)	OPTIONAL C PROVISIONS
-----		
	TAX OBLIGATION/GENERAL (continued)	
\$ 1,750	El Paso County, Texas, Certificates of Obligation, Series 2001, 5.000%, 2/15/21 - FSA Insured	No Opt. C
	Fort Bend County Municipal Utility District 25, Texas, General Obligation Bonds, Series 2005:	
1,330	5.000%, 10/01/26 - FGIC Insured	10/12 at 100
1,320	5.000%, 10/01/27 - FGIC Insured	10/12 at 100
3,615	Frisco, Texas, General Obligation Bonds, Series 2006, 5.000%, 2/15/26 - FGIC Insured	2/16 at 100
	Houston Community College, Texas, Limited Tax General Obligation Bonds, Series 2003:	
2,500	5.000%, 2/15/20 - AMBAC Insured	2/13 at 100
2,235	5.000%, 2/15/21 - AMBAC Insured	2/13 at 100
5,000	Houston, Texas, General Obligation Bonds, Series 2005E, 5.000%, 3/01/23 - AMBAC Insured	3/15 at 100
1,500	Judson Independent School District, Bexar County, Texas, General Obligation Refunding Bonds, Series 2002, 5.250%, 2/01/21	2/11 at 100
5,220	Leander Independent School District, Williamson and Travis Counties, Texas, Unlimited Tax School Building and Refunding Bonds, Series 2000, 0.000%, 8/15/21	8/09 at 46
1,000	Mansfield Independent School District, Tarrant County, Texas, General Obligation Bonds, Series 2004, 5.000%, 2/15/20	2/14 at 100
1,010	Mercedes Independent School District, Hidalgo County, Texas, General Obligation Bonds, Series 2005,	8/15 at 100

Edgar Filing: NUVEEN ARIZONA DIVIDEND ADVANTAGE MUNICIPAL FUND 3 - Form N-CSRS

	5.000%, 8/15/23	
5,515	Midlothian Independent School District, Ellis County, Texas, General Obligation Bonds, Series 2005, 5.000%, 2/15/34	2/15 at 100
1,545	Montgomery County, Texas, General Obligation Refunding Bonds, Series 1997, 0.000%, 3/01/14 - MBIA Insured	9/07 at 72
925	Northside Independent School District, Bexar County, Texas, Unlimited Tax School Building and Refunding Bonds, Series 2000, 5.875%, 8/15/25	8/10 at 100
500	Puerto Rico, General Obligation and Public Improvement Bonds, Series 2001A, 5.500%, 7/01/29	No Opt. C
	Roma Independent School District, Texas, General Obligation Bonds, Series 2005:	
1,110	5.000%, 8/15/22	8/15 at 100
1,165	5.000%, 8/15/23 - FSA Insured	8/15 at 100
1,440	South Texas Community College District, General Obligation Bonds, Series 2002, 5.500%, 8/15/17 - AMBAC Insured	8/12 at 100
1,250	Southside Independent School District, Bexar County, Texas, General Obligation Bonds, Series 2004A, 5.000%, 8/15/22	8/14 at 100
1,140	Sunnyvale School District, Texas, General Obligation Bonds, Series 2004, 5.250%, 2/15/25	2/14 at 100
5,000	Texas, General Obligation Bonds, Transportation Commission Mobility Fund, Series 2006A, 5.000%, 4/01/33	4/17 at 100
2,000	Texas, General Obligation Bonds, Water Financial Assistance Program, Series 2001, 5.250%, 8/01/23	8/11 at 100
1,500	Texas, General Obligation Refunding Bonds, Public Finance Authority, Series 2002, 5.000%, 10/01/18	10/12 at 100
	West Texas Independent School District, McLennan and Hill Counties, General Obligation Refunding Bonds, Series 1998:	
1,000	0.000%, 8/15/22	8/13 at 61
1,000	0.000%, 8/15/24	8/13 at 54
68,935	Total Tax Obligation/General	
	TAX OBLIGATION/LIMITED - 1.6% (1.1% OF TOTAL INVESTMENTS)	
2,250	Harris County-Houston Sports Authority, Texas, Senior Lien Revenue Bonds, Series 2001G, 5.250%, 11/15/22 - MBIA Insured	11/11 at 100

PRINCIPAL AMOUNT (000)	DESCRIPTION (1)	OPTIONAL C PROVISIONS
------------------------	-----------------	-----------------------

Edgar Filing: NUVEEN ARIZONA DIVIDEND ADVANTAGE MUNICIPAL FUND 3 - Form N-CSRS

TRANSPORTATION - 6.4% (4.3% OF TOTAL INVESTMENTS)

\$	1,000	Austin, Texas, Airport System Prior Lien Revenue Bonds, Series 2003, 5.250%, 11/15/16 - MBIA Insured	11/13 at 100
	3,260	Central Texas Regional Mobility Authority, Travis and Williamson Counties, Toll Road Revenue Bonds, Series 2005, 5.000%, 1/01/22 - FGIC Insured	1/15 at 100
	2,600	Dallas-Ft. Worth International Airport Facility Improvement Corporation, Texas, Revenue Bonds, American Airlines Inc., Series 1999, 6.375%, 5/01/35 (Alternative Minimum Tax)	11/09 at 101
	2,000	Houston, Texas, Subordinate Lien Airport System Revenue Bonds, Series 2000A, 5.625%, 7/01/30 - FSA Insured (Alternative Minimum Tax)	7/10 at 100

---

8,860 Total Transportation

---

U.S. GUARANTEED - 19.4% (13.0% OF TOTAL INVESTMENTS) (4)

Gregg County Health Facilities Development Corporation, Texas, Hospital Revenue Bonds, Good Shepherd Medical Center Project, Series 2000:

	2,000	6.875%, 10/01/20 (Pre-refunded 10/01/10) - RAAI Insured	10/10 at 101
	3,250	6.375%, 10/01/25 (Pre-refunded 10/01/10) - RAAI Insured	10/10 at 101
	2,000	Harris County Health Facilities Development Corporation, Texas, Hospital Revenue Bonds, Memorial Hermann Healthcare System, Series 2001A, 6.375%, 6/01/29 (Pre-refunded 6/01/11)	6/11 at 101
	1,500	Harris County Health Facilities Development Corporation, Texas, Revenue Bonds, St. Luke's Episcopal Hospital, Series 2001A, 5.500%, 2/15/21 (Pre-refunded 8/15/11)	8/11 at 100
	1,000	North Central Texas Health Facilities Development Corporation, Hospital Revenue Bonds, Presbyterian Healthcare System, Series 1996B, 5.750%, 6/01/26 - MBIA Insured (ETM)	No Opt. C
	1,075	Northside Independent School District, Bexar County, Texas, Unlimited Tax School Building and Refunding Bonds, Series 2000, 5.875%, 8/15/25 (Pre-refunded 8/15/10)	8/10 at 100
	1,760	Parker County Hospital District, Texas, Hospital Revenue Bonds, Campbell Health System, Series 1999, 6.250%, 8/15/19 (Pre-refunded 8/15/09)	8/09 at 102
	2,500	Retama Development Corporation, Texas, Special Facilities Revenue Bonds, Retama Park Racetrack, Series 1993, 8.750%, 12/15/18 (Pre-refunded 12/15/17) (5)	12/17 at 100
	1,750	San Antonio, Texas, Electric and Gas System Revenue Refunding Bonds, Series 2002, 5.375%, 2/01/20 (Pre-refunded 2/01/12)	2/12 at 100
	1,050	Tarrant County Health Facilities Development Corporation,	11/08 at 101

Edgar Filing: NUVEEN ARIZONA DIVIDEND ADVANTAGE MUNICIPAL FUND 3 - Form N-CSRS

	Texas, Hospital Revenue Bonds, Adventist Health System - Sunbelt Obligated Group, Series 1998, 5.375%, 11/15/20 (Pre-refunded 11/15/08)	
3,500	Tarrant County Health Facilities Development Corporation, Texas, Hospital Revenue Bonds, Adventist Health System - Sunbelt Obligated Group, Series 2000, 6.625%, 11/15/20 (Pre-refunded 11/15/10)	11/10 at 101
2,000	Tarrant County Health Facilities Development Corporation, Texas, Tax-Exempt Mortgage Revenue Bonds, South Central Nursing Homes Inc., Series 1997A, 6.000%, 1/01/37 (Pre-refunded 1/01/08) - MBIA Insured	1/08 at 105
1,790	Weslaco Independent School District, Hidalgo County, Texas, General Obligation School Building Bonds, Series 2000, 5.500%, 2/15/25 (Pre-refunded 2/15/10)	2/10 at 100
-----		
25,175	Total U.S. Guaranteed	
-----		

UTILITIES - 9.6% (6.5% OF TOTAL INVESTMENTS)

2,560	Brazos River Authority, Texas, Pollution Control Revenue Refunding Bonds, TXU Electric Company, Series 1999C, 7.700%, 3/01/32 (Alternative Minimum Tax)	4/13 at 101
2,400	Brazos River Authority, Texas, Revenue Bonds, Reliant Energy Inc., Series 1999A, 5.375%, 4/01/19	4/09 at 101
5,000	Brownsville, Texas, Utility System Priority Revenue Bonds, Series 2005A, 5.000%, 9/01/27 - AMBAC Insured	9/15 at 100

35

Nuveen Texas Quality Income Municipal Fund (NTX) (continued)  
Portfolio of INVESTMENTS January 31, 2007 (Unaudited)

PRINCIPAL AMOUNT (000)	DESCRIPTION (1)	OPTIONAL C PROVISIONS
-----		
	UTILITIES (continued)	
\$ 2,000	Harris County Health Facilities Development Corporation, Texas, Thermal Utility Revenue Bonds, TECO Project, Series 2000, 5.750%, 2/15/15 - AMBAC Insured (Alternative Minimum Tax)	2/10 at 100
1,000	Matagorda County Navigation District 1, Texas, Revenue Bonds, Reliant Energy Inc., Series 1999B, 5.950%, 5/01/30 (Alternative Minimum Tax)	5/09 at 101
-----		
12,960	Total Utilities	
-----		

Edgar Filing: NUVEEN ARIZONA DIVIDEND ADVANTAGE MUNICIPAL FUND 3 - Form N-CSRS

WATER AND SEWER - 10.8% (7.3% OF TOTAL INVESTMENTS)

	Coastal Water Authority, Texas, Contract Revenue Bonds, Houston Water Projects, Series 2004:		
1,005	5.000%, 12/15/20 - FGIC Insured		12/14 at 100
1,030	5.000%, 12/15/21 - FGIC Insured		12/14 at 100
3,000	Houston, Texas, First Lien Combined Utility System Revenue Bonds, Series 2004A, 5.250%, 5/15/23 - FGIC Insured		5/14 at 100
3,500	Houston, Texas, Junior Lien Water and Sewerage System Revenue Refunding Bonds, Series 2001A, 5.500%, 12/01/17 - FSA Insured		12/11 at 100
	Irving, Texas, Subordinate Lien Waterworks and Sewerage Revenue Bonds, Series 2004:		
1,680	5.000%, 8/15/22 - AMBAC Insured		8/14 at 100
1,760	5.000%, 8/15/23 - AMBAC Insured		8/14 at 100
1,260	Rowlett, Rockwall and Dallas Counties, Texas, Waterworks and Sewerage System Revenue Bonds, Series 2004A, 5.000%, 3/01/22 - MBIA Insured		3/14 at 100
1,500	Texas Water Development Board, Senior Lien State Revolving Fund Revenue Bonds, Series 1999A, 5.500%, 7/15/21		7/09 at 100

-----  
 14,735 Total Water and Sewer  
 -----

\$ 210,760 Total Investments (cost \$204,934,890) - 148.4%  
 =====

Floating Rate Obligations - (2.6)%  
 -----

Other Assets Less Liabilities - 2.1%  
 -----

Preferred Shares, at Liquidation Value - (47.9)%  
 -----

Net Assets Applicable to Common Shares - 100%  
 =====

- (1) All percentages shown in the Portfolio of Investments are based on net assets applicable to Common shares unless otherwise noted.
- (2) Optional Call Provisions: Dates (month and year) and prices of the earliest optional call or redemption. There may be other call provisions at varying prices at later dates. Certain mortgage-backed securities may be subject to periodic principal paydowns.
- (3) Ratings: Using the higher of Standard & Poor's or Moody's rating. Ratings below BBB by Standard & Poor's Group or Baa by Moody's Investor Service, Inc. are considered to be below investment grade.
- (4) Backed by an escrow or trust containing sufficient U.S. Government or U.S. Government agency securities which ensure the timely payment of principal and interest. Such investments are normally considered to be equivalent to AAA rated securities.
- (5) The issuer has received a formal adverse determination



from the Internal Revenue Service (the "IRS") regarding the tax-exempt status of the bonds' coupon payments. The Fund will continue to treat coupon payments as tax-exempt income until such time that it is formally determined that the interest on the bonds should be treated as taxable.

- N/R Not rated.
- (ETM) Escrowed to maturity.
- (UB) Underlying bond of an inverse floating rate trust reflected as a financing transaction pursuant to the provisions of SFAS No. 140.

See accompanying notes to financial statements.

Statement of  
ASSETS AND LIABILITIES January 31, 2007 (Unaudited)

	ARIZONA PREMIUM INCOME (NAZ)	ARIZONA DIVIDEND ADVANTAGE (NFZ)	ARIZONA DIVIDEND ADVANTAGE 2 (NKR)
<b>ASSETS</b>			
Investments, at value (cost \$91,688,321, \$34,306,399, \$52,824,958, \$64,637,108 and \$204,934,890, respectively)	\$95,323,188	\$35,430,221	\$55,161,709
Cash	--	--	--
Receivables:			
Interest	666,070	286,404	415,193
Investments sold	--	--	1,113,599
Other assets	1,398	1,190	2,951
<b>Total assets</b>	<b>95,990,656</b>	<b>35,717,815</b>	<b>56,693,452</b>
<b>LIABILITIES</b>			
Cash overdraft	126,716	51,037	485,808
Floating rate obligations	2,054,352	622,856	994,488
Accrued expenses:			
Management fees	50,724	11,483	15,741
Other	29,202	20,379	7,456
Preferred share dividends payable	16,272	1,035	11,352
<b>Total liabilities</b>	<b>2,277,266</b>	<b>706,790</b>	<b>1,514,845</b>
Preferred shares, at liquidation value	30,000,000	12,000,000	18,500,000
Net assets applicable to Common shares	\$63,713,390	\$23,011,025	\$36,678,607
Common shares outstanding	4,468,210	1,548,711	2,433,004
Net asset value per Common share outstanding (net assets applicable to Common shares, divided by Common shares outstanding)	\$ 14.26	\$ 14.86	\$ 15.08

Edgar Filing: NUVEEN ARIZONA DIVIDEND ADVANTAGE MUNICIPAL FUND 3 - Form N-CSRS

NET ASSETS APPLICABLE TO COMMON SHARES CONSIST OF:

Common shares, \$.01 par value per share	\$ 44,682	\$ 15,487	\$ 24,330
Paid-in surplus	62,143,653	21,908,212	34,477,587
Undistributed (Over-distribution of) net investment income	(116,585)	(38,104)	(55,747)
Accumulated net realized gain (loss) from investments and derivative transactions	(1,993,227)	1,608	(104,314)
Net unrealized appreciation (depreciation) of investments and derivative transactions	3,634,867	1,123,822	2,336,751
Net assets applicable to Common shares	\$63,713,390	\$23,011,025	\$36,678,607
Authorized shares:			
Common	200,000,000	Unlimited	Unlimited
Preferred	1,000,000	Unlimited	Unlimited

See accompanying notes to financial statements.

37

Statement of  
OPERATIONS Six Months Ended January 31, 2007 (Unaudited)

	ARIZONA PREMIUM INCOME (NAZ)	ARIZONA DIVIDEND ADVANTAGE (NFZ)	ARIZONA DIVIDEND ADVANTAGE 2 (NKR)
INVESTMENT INCOME	\$2,262,239	\$826,734	\$1,335,947
EXPENSES			
Management fees	301,947	113,011	178,142
Preferred shares - auction fees	37,808	15,123	23,315
Preferred shares - dividend disbursing agent fees	5,041	5,041	5,041
Shareholders' servicing agent fees and expenses	2,144	172	163
Floating rate obligations interest expense and fees	15,474	4,691	7,488
Custodian's fees and expenses	16,502	10,366	10,693
Directors'/Trustees' fees and expenses	1,244	394	814
Professional fees	6,698	5,388	5,826
Shareholders' reports - printing and mailing expenses	7,614	4,032	5,363
Stock exchange listing fees	4,974	66	104
Investor relations expense	6,116	2,260	3,519
Other expenses	8,103	6,231	6,821
Total expenses before custodian fee credit and expense reimbursement	413,665	166,775	247,289
Custodian fee credit	(6,956)	(4,367)	(3,657)
Expense reimbursement	--	(44,466)	(84,112)
Net expenses	406,709	117,942	159,520
Net investment income	1,855,530	708,792	1,176,427
REALIZED AND UNREALIZED GAIN (LOSS)			

Edgar Filing: NUVEEN ARIZONA DIVIDEND ADVANTAGE MUNICIPAL FUND 3 - Form N-CSRS

Net realized gain (loss) from investments	111,296	1,665	61,460
Net realized gain (loss) from forward swaps	--	--	--
Change in net unrealized appreciation (depreciation) of investments	579,343	292,793	246,863
Change in net unrealized appreciation (depreciation) of forward swaps	--	--	--
-----			
Net realized and unrealized gain (loss)	690,639	294,458	308,323
-----			
DISTRIBUTIONS TO PREFERRED SHAREHOLDERS			
From net investment income	(489,202)	(180,715)	(282,079)
From accumulated net realized gains	--	(24,096)	(24,790)
-----			
Decrease in net assets applicable to Common shares from distributions to Preferred shareholders	(489,202)	(204,811)	(306,869)
-----			
Net increase (decrease) in net assets applicable to Common shares from operations	\$2,056,967	\$798,439	\$1,177,881
=====			

See accompanying notes to financial statements.

38

Statement of  
CHANGES IN NET ASSETS (Unaudited)

	ARIZONA PREMIUM INCOME (NAZ)		ARIZONA DIVIDEND ADVANTAGE (NFZ)	
	SIX MONTHS ENDED	YEAR ENDED	SIX MONTHS ENDED	YEAR ENDED
	1/31/07	7/31/06	1/31/07	7/31/06
-----				
OPERATIONS				
Net investment income	\$ 1,855,530	\$ 3,721,825	\$ 708,792	\$ 1,443,825
Net realized gain (loss) from investments	111,296	118,668	1,665	129,875
Net realized gain (loss) from forward swaps	--	--	--	45,965
Change in net unrealized appreciation (depreciation) of investments	579,343	(1,870,680)	292,793	(781,655)
Change in net unrealized appreciation (depreciation) of forward swaps	--	--	--	(25,345)
Distributions to Preferred shareholders:				
From net investment income	(489,202)	(787,320)	(180,715)	(305,985)
From accumulated net realized gains	--	--	(24,096)	(14,815)
-----				
Net increase (decrease) in net assets applicable to Common shares from operations	2,056,967	1,182,493	798,439	491,865
-----				
DISTRIBUTIONS TO COMMON SHAREHOLDERS				
From net investment income	(1,367,272)	(3,081,682)	(570,721)	(1,299,915)
From accumulated net realized gains	--	--	(95,091)	(118,135)

Edgar Filing: NUVEEN ARIZONA DIVIDEND ADVANTAGE MUNICIPAL FUND 3 - Form N-CSRS

Decrease in net assets applicable to Common shares from distributions to Common shareholders	(1,367,272)	(3,081,682)	(665,812)	(1,418,04
CAPITAL SHARE TRANSACTIONS				
Net proceeds from Common shares issued to shareholders due to reinvestment of distributions	--	100,418	16,893	35,01
Net increase in net assets applicable to Common shares from capital share transactions	--	100,418	16,893	35,01
Net increase (decrease) in net assets applicable to Common shares	689,695	(1,798,771)	149,520	(891,17
Net assets applicable to Common shares at the beginning of period	63,023,695	64,822,466	22,861,505	23,752,67
Net assets applicable to Common shares at the end of period	\$63,713,390	\$63,023,695	\$23,011,025	\$22,861,50
Undistributed (Over-distribution of) net investment income at the end of period	\$ (116,585)	\$ (115,641)	\$ (38,104)	\$ 4,54

See accompanying notes to financial statements.

39

Statement of  
CHANGES IN NET ASSETS (Unaudited) (continued)

	ARIZONA DIVIDEND ADVANTAGE 3 (NXE)	
	SIX MONTHS ENDED 1/31/07	YEAR ENDED 7/31/0
OPERATIONS		
Net investment income	\$ 1,366,855	\$ 2,706,00
Net realized gain (loss) from investments	23,544	111,24
Net realized gain (loss) from forward swaps	10,344	143,85
Change in net unrealized appreciation (depreciation) of investments	581,385	(1,013,67
Change in net unrealized appreciation (depreciation) of forward swaps	(48,098)	(30,56
Distributions to Preferred shareholders:		
From net investment income	(379,010)	(597,77
From accumulated net realized gains	--	-
Net increase (decrease) in net assets applicable to Common shares from operations	1,555,020	1,319,09

Edgar Filing: NUVEEN ARIZONA DIVIDEND ADVANTAGE MUNICIPAL FUND 3 - Form N-CSRS

-----		
DISTRIBUTIONS TO COMMON SHAREHOLDERS		
From net investment income	(1,039,894)	(2,239,24
From accumulated net realized gains	--	-
-----		
Decrease in net assets applicable to Common shares from distributions to Common shareholders	(1,039,894)	(2,239,24
-----		
CAPITAL SHARE TRANSACTIONS		
Net proceeds from Common shares issued to shareholders due to reinvestment of distributions	--	4,30
-----		
Net increase in net assets applicable to Common shares from capital share transactions	--	4,30
-----		
Net increase (decrease) in net assets applicable to Common shares	515,126	(915,84
Net assets applicable to Common shares at the beginning of period	43,913,470	44,829,31
-----		
Net assets applicable to Common shares at the end of period	\$44,428,596	\$43,913,47
=====		
Undistributed (Over-distribution of) net investment income at the end of period	\$ (145,516)	\$ (93,46
=====		

See accompanying notes to financial statements.

40

Notes to  
FINANCIAL STATEMENTS (Unaudited)

1. GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES

The state funds (the "Funds") covered in this report and their corresponding Common share stock exchange symbols are Nuveen Arizona Premium Income Municipal Fund, Inc. (NAZ), Nuveen Arizona Dividend Advantage Municipal Fund (NFZ), Nuveen Arizona Dividend Advantage Municipal Fund 2 (NKR), Nuveen Arizona Dividend Advantage Municipal Fund 3 (NXE) and Nuveen Texas Quality Income Municipal Fund (NTX). Common shares of Arizona Premium Income (NAZ) and Texas Quality Income (NTX) are traded on the New York Stock Exchange while Common shares of Arizona Dividend Advantage (NFZ), Arizona Dividend Advantage 2 (NKR) and Arizona Dividend Advantage 3 (NXE) are traded on the American Stock Exchange. The Funds are registered under the Investment Company Act of 1940, as amended, as closed-end management investment companies.

Each Fund seeks to provide current income exempt from both regular federal and designated state income taxes by investing primarily in a diversified portfolio of municipal obligations issued by state and local government authorities within a single state or certain U.S. territories.

The following is a summary of significant accounting policies followed by the Funds in the preparation of their financial statements in accordance with U.S.

generally accepted accounting principles.

#### Investment Valuation

The prices of municipal bonds in each Fund's investment portfolio are provided by a pricing service approved by the Fund's Board of Directors/Trustees. When market price quotes are not readily available (which is usually the case for municipal securities), the pricing service may establish fair value based on yields or prices of municipal bonds of comparable quality, type of issue, coupon, maturity and rating, indications of value from securities dealers, evaluations of anticipated cash flows or collateral and general market conditions. Prices of forward swap contracts are also provided by an independent pricing service approved by each Fund's Board of Directors/Trustees. If the pricing service is unable to supply a price for a municipal bond or a forward swap contract, each Fund may use a market price or fair market value quote provided by a major broker/dealer in such investments. If it is determined that the market price or fair market value for an investment is unavailable or inappropriate, the Board of Directors/Trustees of the Funds, or its designee, may establish a fair value for the investment. Temporary investments in securities that have variable rate and demand features qualifying them as short-term investments are valued at amortized cost, which approximates market value.

#### Investment Transactions

Investment transactions are recorded on a trade date basis. Realized gains and losses from transactions are determined on the specific identification method. Investments purchased on a when-issued/delayed delivery basis may have extended settlement periods. Any investments so purchased are subject to market fluctuation during this period. The Funds have instructed the custodian to segregate assets with a current value at least equal to the amount of the when-issued/delayed delivery purchase commitments. At January 31, 2007, there were no such outstanding purchase commitments in any of the Funds.

#### Investment Income

Interest income, which includes the amortization of premiums and accretion of discounts for financial reporting purposes, is recorded on an accrual basis. Investment income also includes paydown gains and losses, if any.

#### Notes to

FINANCIAL STATEMENTS (Unaudited) (continued)

#### Income Taxes

Each Fund is a separate taxpayer for federal income tax purposes. Each Fund intends to distribute substantially all net investment income and net capital gains to shareholders and to otherwise comply with the requirements of Subchapter M of the Internal Revenue Code applicable to regulated investment companies. Therefore, no federal income tax provision is required. Furthermore, each Fund intends to satisfy conditions which will enable interest from municipal securities, which is exempt from regular federal and designated state income taxes, to retain such tax-exempt status when distributed to shareholders of the Funds. Net realized capital gains and ordinary income distributions paid by the Funds are subject to federal taxation.

# Edgar Filing: NUVEEN ARIZONA DIVIDEND ADVANTAGE MUNICIPAL FUND 3 - Form N-CSRS

## Dividends and Distributions to Common Shareholders

Dividends from tax-exempt net investment income are declared monthly. Net realized capital gains and/or market discount from investment transactions, if any, are distributed to shareholders not less frequently than annually. Furthermore, capital gains are distributed only to the extent they exceed available capital loss carryforwards.

Distributions to Common shareholders of tax-exempt net investment income, net realized capital gains and/or market discount, if any, are recorded on the ex-dividend date. The amount and timing of distributions are determined in accordance with federal income tax regulations, which may differ from U.S. generally accepted accounting principles.

## Preferred Shares

The Funds have issued and outstanding Preferred shares, \$25,000 stated value per share, as a means of effecting financial leverage. Each Fund's Preferred shares are issued in one or more Series. The dividend rate paid by the Funds on each Series is determined every seven days, pursuant to a dutch auction process overseen by the auction agent, and is payable at the end of each rate period. The number of Preferred shares outstanding, by Series and in total, for each Fund is as follows:

	ARIZONA PREMIUM INCOME (NAZ)	ARIZONA DIVIDEND ADVANTAGE (NFZ)	ARIZONA DIVIDEND ADVANTAGE 2 (NKR)	ARIZONA DIVIDEND ADVANTAGE 3 (NXE)
-----				
Number of shares:				
Series M	--	--	--	880
Series T	--	480	--	--
Series W	--	--	740	--
Series TH	1,200	--	--	--
-----				
Total	1,200	480	740	880
=====				

## Inverse Floating Rate Securities

Each Fund may invest in inverse floating rate securities. An inverse floating rate security is created by depositing a municipal bond, typically with a fixed interest rate, into a special purpose trust created by a broker-dealer. In turn, this trust (a) issues floating rate certificates, in face amounts equal to some fraction of the deposited bond's par amount or market value, that typically pay short-term tax-exempt interest rates to third parties, and (b) issues to a long-term investor (such as one of the Funds) an inverse floating rate certificate (sometimes referred to as an "inverse floater") that represents all remaining or residual interest in the trust. The income received by the inverse floater holder varies inversely with the short-term rate paid to the floating rate certificates' holders, and in most circumstances the inverse floater holder bears substantially all of the underlying bond's downside investment risk and also benefits disproportionately from any potential appreciation of the underlying bond's value. The price of an inverse floating rate security will be more volatile than that of the underlying bond because the interest rate is dependent on not only the fixed coupon rate of the underlying bond but also on the short-term interest paid on the floating rate certificates, and because the inverse floating rate security essentially bears the risk of loss of the greater face value of the underlying bond.

A Fund may purchase an inverse floating rate security in a secondary market transaction without first owning the underlying bond (referred to as an "externally-deposited inverse floater"), or instead by first selling a fixed-rate bond to a broker-dealer for deposit into the special purpose trust and receiving in turn the residual interest in the trust (referred to as a "self-deposited inverse floater"). An investment in an externally-deposited inverse floater is identified in the Portfolio of Investments as an "Inverse floating rate investment". An investment in a self-deposited inverse floater is accounted for as a financing transaction in accordance with Statement of Financial Accounting Standards (SFAS) No. 140 "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities". In such instances, a fixed-rate bond deposited into a special purpose trust is identified in the Portfolio of Investments as an "Underlying bond of an inverse floating rate trust", with the Fund accounting for the short-term floating rate certificates issued by the trust as "Floating rate obligations" on the Statement of Assets and Liabilities. In addition, the Fund reflects in Investment Income the entire earnings of the underlying bond and accounts for the related interest paid to the holders of the short-term floating rate certificates as "Floating rate obligations interest expense and fees" in the Statement of Operations.

During the six months ended January 31, 2007, each Fund invested in externally deposited inverse floaters and/or self-deposited inverse floaters.

The average floating rate obligations outstanding and average annual interest rate related to self-deposited inverse floaters during the six months ended January 31, 2007, were as follows:

	ARIZONA PREMIUM INCOME (NAZ)	ARIZONA DIVIDEND ADVANTAGE (NFZ)	ARIZONA DIVIDEND ADVANTAGE 2 (NKR)	ARIZONA DIVIDEND ADVANTAGE 3 (NXE)
Average floating rate obligations	\$790,628	\$239,705	\$382,743	\$456,203
Average annual interest rate	3.88%	3.88%	3.88%	3.88%

Forward Swap Transactions

The Funds are authorized to invest in certain derivative financial instruments. The Funds' use of forward interest rate swap transactions is intended to help the Fund manage its overall interest rate sensitivity, either shorter or longer, generally to more closely align the Fund's interest rate sensitivity with that of the broader municipal market. Forward interest rate swap transactions involve each Fund's agreement with a counterparty to pay, in the future, a fixed or variable rate payment in exchange for the counterparty paying the Fund a variable or fixed rate payment, the accruals for which would begin at a specified date in the future (the "effective date"). The amount of the payment obligation is based on the notional amount of the forward swap contract and the termination date of the swap (which is akin to a bond's maturity). The value of the Fund's swap commitment would increase or decrease based primarily on the extent to which long-term interest rates for bonds having a maturity of the swap's termination date increases or decreases. The Funds may terminate a swap



contract prior to the effective date, at which point a realized gain or loss is recognized. When a forward swap is terminated, it ordinarily does not involve the delivery of securities or other underlying assets or principal, but rather is settled in cash on a net basis. Each Fund intends, but is not obligated, to terminate its forward swaps before the effective date. Accordingly, the risk of loss with respect to the swap counterparty on such transactions is limited to the credit risk associated with a counterparty failing to honor its commitment to pay any realized gain to the Fund upon termination. To reduce such credit risk, all counterparties are required to pledge collateral daily (based on the daily valuation of each swap) on behalf of each Fund with a value approximately equal to the amount of any unrealized gain above a pre-determined threshold. Reciprocally, when any of the Funds have an unrealized loss on a swap contract, the Funds have instructed the custodian to pledge assets of the Funds as collateral with a value approximately equal to the amount of the unrealized loss above a pre-determined threshold. Collateral pledges are monitored and subsequently adjusted if and when the swap valuations fluctuate, either up or down, by at least the predetermined threshold amount.

#### Custodian Fee Credit

Each Fund has an arrangement with the custodian bank whereby certain custodian fees and expenses are reduced by credits earned on each Fund's cash on deposit with the bank. Such deposit arrangements are an alternative to overnight investments.

#### Indemnifications

Under the Funds' organizational documents, their Officers and Directors/Trustees are indemnified against certain liabilities arising out of the performance of their duties to the Funds. In addition, in the normal course of business, the Funds enter into contracts that provide general indemnifications to other parties. The Funds' maximum exposure under these arrangements is unknown as this would involve future claims that may be made against the Funds that have not yet occurred. However, the Funds have not had prior claims or losses pursuant to these contracts and expect the risk of loss to be remote.

#### Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of increases and decreases in net assets applicable to Common shares from operations during the reporting period. Actual results may differ from those estimates.

Notes to  
FINANCIAL STATEMENTS (Unaudited) (continued)

## 2. FUND SHARES

Transactions in Common shares were as follows:

ARIZONA PREMIUM  
INCOME (NAZ)

ARIZONA DIVIDEND  
ADVANTAGE (NFZ)

ARIZON  
ADVANT

Edgar Filing: NUVEEN ARIZONA DIVIDEND ADVANTAGE MUNICIPAL FUND 3 - Form N-CSRS

	SIX MONTHS ENDED 1/31/07		SIX MONTHS ENDED 1/31/07		SIX MONTHS ENDED 1/31/07
	YEAR ENDED 7/31/06	YEAR ENDED 7/31/06	YEAR ENDED 7/31/06	YEAR ENDED 7/31/06	YEAR ENDED 7/31/06
Common shares issued to shareholders due to reinvestment of distributions	--	6,761	1,067	2,135	2,508

	ARIZONA DIVIDEND ADVANTAGE 3 (NXE)		TEXAS INCO
	SIX MONTHS ENDED 1/31/07	YEAR ENDED 7/31/06	SIX MONTHS ENDED 1/31/07
Common shares issued to shareholders due to reinvestment of distributions	--	288	--

3. INVESTMENT TRANSACTIONS

Purchases and sales (including maturities but excluding short-term investments and derivative transactions) during the six months ended January 31, 2007, were as follows:

	ARIZONA PREMIUM INCOME (NAZ)	ARIZONA DIVIDEND ADVANTAGE (NFZ)	ARIZONA DIVIDEND ADVANTAGE 2 (NKR)	ARIZONA DIVIDEND ADVANTAGE 3 (NXE)
Purchases	\$7,608,870	\$4,400,459	\$4,904,775	\$6,997,732
Sales and maturities	5,998,571	1,672,813	4,208,100	6,361,859

4. INCOME TAX INFORMATION

The following information is presented on an income tax basis. Differences between amounts for financial statement and federal income tax purposes are primarily due to the treatment of paydown gains and losses, timing differences in recognizing taxable market discount, timing differences in recognizing certain gains and losses on investment transactions and the treatment of investments in inverse floating rate transactions subject to SFAS No.140. To the extent that differences arise that are permanent in nature, such amounts are reclassified within the capital accounts on the Statement of Assets and Liabilities presented in the annual report, based on their federal tax basis treatment; temporary differences do not require reclassification. Temporary and permanent differences do not impact the net asset values of the Funds.

At January 31, 2007, the cost of investments was as follows:

Edgar Filing: NUVEEN ARIZONA DIVIDEND ADVANTAGE MUNICIPAL FUND 3 - Form N-CSRS

	ARIZONA PREMIUM INCOME (NAZ)	ARIZONA DIVIDEND ADVANTAGE (NFZ)	ARIZONA DIVIDEND ADVANTAGE 2 (NKR)	ARIZONA DIVIDEND ADVANTAGE 3 (NXE)
Cost of investments	\$89,609,894	\$33,672,049	\$51,950,749	\$63,510,713

44

Gross unrealized appreciation and gross unrealized depreciation of investments at January 31, 2007, were as follows:

	ARIZONA PREMIUM INCOME (NAZ)	ARIZONA DIVIDEND ADVANTAGE (NFZ)	ARIZONA DIVIDEND ADVANTAGE 2 (NKR)	ARIZONA DIVIDEND ADVANTAGE 3 (NXE)
Gross unrealized: Appreciation	\$3,873,457	\$1,201,738	\$2,455,281	\$2,071,975
Depreciation	(215,447)	(74,212)	(229,121)	(199,058)
Net unrealized appreciation (depreciation) of investments	\$3,658,010	\$1,127,526	\$2,226,160	\$1,872,917

The tax components of undistributed net tax-exempt income, net ordinary income and net long-term capital gains at July 31, 2006, the Funds' last tax year end, were as follows:

	ARIZONA PREMIUM INCOME (NAZ)	ARIZONA DIVIDEND ADVANTAGE (NFZ)	ARIZONA DIVIDEND ADVANTAGE 2 (NKR)	ARIZONA DIVIDEND ADVANTAGE 3 (NXE)
Undistributed net tax-exempt income *	\$98,264	\$106,365	\$118,647	\$91,940
Undistributed net ordinary income **	--	3,027	--	--
Undistributed net long-term capital gains	--	119,130	69,876	--

\* Undistributed net tax-exempt income (on a tax basis) has not been reduced for the dividend declared on July 3, 2006, paid on August 1, 2006.

\*\* Net ordinary income consists of taxable market discount income and net short-term capital gains, if any.

The tax character of distributions paid during the Funds' last tax year ended July 31, 2006, was designated for purposes of the dividends paid deduction as follows:

Edgar Filing: NUVEEN ARIZONA DIVIDEND ADVANTAGE MUNICIPAL FUND 3 - Form N-CSRS

	ARIZONA PREMIUM INCOME (NAZ)	ARIZONA DIVIDEND ADVANTAGE (NFZ)	ARIZONA DIVIDEND ADVANTAGE 2 (NKR)	ARIZONA DIVIDEND ADVANTAGE 3 (NXE)
Distributions from net tax-exempt income	\$3,923,547	\$1,618,663	\$2,507,532	\$2,850,308
Distributions from net ordinary income **	--	--	--	--
Distributions from net long-term capital gains	--	132,955	290,789	--

\*\* Net ordinary income consists of taxable market discount income and net short-term capital gains, if any.

At July 31, 2006, the Funds' last tax year end, the following Funds had unused capital loss carryforwards available for federal income tax purposes to be applied against future capital gains, if any. If not applied, the carryforwards will expire as follows:

	ARIZONA PREMIUM INCOME (NAZ)	ARIZONA DIVIDEND ADVANTAGE 3 (NXE)
Expiration year:		
2011	\$ 477,877	\$ --
2012	1,553,627	205,820
2013	--	160,902
2014	--	218,127
Total	\$2,031,504	\$584,849

The following Funds elected to defer net realized losses from investments incurred from November 1, 2005 through July 31, 2006 ("post-October losses"), in accordance with Federal income tax regulations. Post-October losses are treated as having arisen on the first day of the current fiscal year:

	ARIZONA PREMIUM INCOME (NAZ)	ARIZONA DIVIDEND ADVANTAGE 3 (NXE)
	\$73,017	\$23,223

Notes to  
FINANCIAL STATEMENTS (Unaudited) (continued)

5. MANAGEMENT FEES AND OTHER TRANSACTIONS WITH AFFILIATES

Each Fund's management fee is separated into two components - a complex-level component, based on the aggregate amount of all fund assets managed by Nuveen Asset Management (the "Adviser"), a wholly owned subsidiary of Nuveen Investments, Inc. ("Nuveen"), and a specific fund-level component, based only on

Edgar Filing: NUVEEN ARIZONA DIVIDEND ADVANTAGE MUNICIPAL FUND 3 - Form N-CSRS

the amount of assets within each individual fund. This pricing structure enables Nuveen fund shareholders to benefit from growth in the assets within each individual fund as well as from growth in the amount of complex-wide assets managed by the Adviser.

The annual fund-level fee, payable monthly, for each Fund is based upon the average daily net assets (including net assets attributable to Preferred shares) of each Fund as follows:

AVERAGE DAILY NET ASSETS (INCLUDING NET ASSETS ATTRIBUTABLE TOPREFERRED SHARES)	ARIZONA PREMIUM INCOME (NAZ) TEXAS QUALITY INCOME (NTX) FUND-LEVEL FEE RATE
For the first \$125 million	.4500%
For the next \$125 million	.4375
For the next \$250 million	.4250
For the next \$500 million	.4125
For the next \$1 billion	.4000
For the next \$3 billion	.3875
For net assets over \$5 billion	.3750

AVERAGE DAILY NET ASSETS (INCLUDING NET ASSETS ATTRIBUTABLE TOPREFERRED SHARES)	ARIZONA DIVIDEND ADVANTAGE (NFZ) ARIZONA DIVIDEND ADVANTAGE 2 (NKR) ARIZONA DIVIDEND ADVANTAGE 3 (NXE) FUND-LEVEL FEE RATE
For the first \$125 million	.4500%
For the next \$125 million	.4375
For the next \$250 million	.4250
For the next \$500 million	.4125
For the next \$1 billion	.4000
For net assets over \$2 billion	.3750

The annual complex-level fee, payable monthly, which is additive to the fund-level fee, for all Nuveen sponsored funds in the U.S., is based on the aggregate amount of total fund assets managed as stated in the table below. As of January 31, 2007, the complex-level fee rate was .1844%.

COMPLEX-LEVEL ASSETS (1)	COMPLEX-LEVEL FEE RATE
For the first \$55 billion	.2000%
For the next \$1 billion	.1800
For the next \$1 billion	.1600
For the next \$3 billion	.1425
For the next \$3 billion	.1325
For the next \$3 billion	.1250
For the next \$5 billion	.1200
For the next \$5 billion	.1175
For the next \$15 billion	.1150
For Managed Assets over \$91 billion (2)	.1400

(1) The complex-level fee component of the management fee for the funds is calculated based upon the aggregate Managed Assets ("Managed Assets" means the average daily net assets of each fund including assets attributable to preferred stock issued by or borrowings by the Nuveen funds) of Nuveen-sponsored funds in the U.S.

(2) With respect to the complex-wide Managed Assets over \$91 billion, the fee rate or rates that will apply to such assets will be determined at a later

date. In the unlikely event that complex-wide Managed Assets reach \$91 billion prior to a determination of the complex-level fee rate or rates to be applied to Managed Assets in excess of \$91 billion, the complex-level fee rate for such complex-wide Managed Assets shall be .1400% until such time as a different rate or rates is determined.

The management fee compensates the Adviser for overall investment advisory and administrative services and general office facilities. The Funds pay no compensation directly to those of its Directors/Trustees who are affiliated with the Adviser or to its Officers, all of whom receive remuneration for their services to the Funds from the Adviser or its affiliates. The Board of Directors/Trustees has adopted a deferred compensation plan for independent Directors/Trustees that enables Directors/Trustees to elect to defer receipt of all or a portion of the annual compensation they are entitled to receive from certain Nuveen advised Funds. Under the plan, deferred amounts are treated as though equal dollar amounts had been invested in shares of select Nuveen advised funds.

For the first ten years of Arizona Dividend Advantage's (NFZ) operations, the Adviser has agreed to reimburse the Fund, as a percentage of average daily net assets (including net assets attributable to Preferred shares), for fees and expenses in the amounts and for the time periods set forth below:

YEAR ENDING JANUARY 31,		YEAR ENDING JANUARY 31,	
2001*	.30%	2007	.25%
2002	.30	2008	.20
2003	.30	2009	.15
2004	.30	2010	.10
2005	.30	2011	.05
2006	.30		

\* From the commencement of operations.

The Adviser has not agreed to reimburse Arizona Dividend Advantage (NFZ) for any portion of its fees and expenses beyond January 31, 2011.

For the first ten years of Arizona Dividend Advantage 2's (NKR) operations, the Adviser has agreed to reimburse the Fund, as a percentage of average daily net assets (including net assets attributable to Preferred shares), for fees and expenses in the amounts and for the time periods set forth below:

YEAR ENDING MARCH 31,		YEAR ENDING MARCH 31,	
2002*	.30%	2008	.25%
2003	.30	2009	.20
2004	.30	2010	.15
2005	.30	2011	.10
2006	.30	2012	.05
2007	.30		

\* From the commencement of operations.

# Edgar Filing: NUVEEN ARIZONA DIVIDEND ADVANTAGE MUNICIPAL FUND 3 - Form N-CSRS

The Adviser has not agreed to reimburse Arizona Dividend Advantage 2 (NKR) for any portion of its fees and expenses beyond March 31, 2012.

For the first eight years of Arizona Dividend Advantage 3's (NXE) operations, the Adviser has agreed to reimburse the Fund, as a percentage of average daily net assets (including net assets attributable to Preferred shares), for fees and expenses in the amounts and for the time periods set forth below:

YEAR ENDING SEPTEMBER 30,		YEAR ENDING SEPTEMBER 30,	
2002*	.32%	2007	.32%
2003	.32	2008	.24
2004	.32	2009	.16
2005	.32	2010	.08
2006	.32		

\* From the commencement of operations.

The Adviser has not agreed to reimburse Arizona Dividend Advantage 3 (NXE) for any portion of its fees and expenses beyond September 30, 2010.

Notes to  
FINANCIAL STATEMENTS (Unaudited) (continued)

## 6. NEW ACCOUNTING PRONOUNCEMENTS

### Financial Accounting Standards Board Interpretation No. 48

On July 13, 2006, the Financial Accounting Standards Board (FASB) released FASB Interpretation No. 48 Accounting for Uncertainty in Income Taxes (FIN 48). FIN 48 provides guidance for how uncertain tax positions should be recognized, measured, presented and disclosed in the financial statements. FIN 48 requires the evaluation of tax positions taken or expected to be taken in the course of preparing the Fund's tax returns to determine whether the tax positions are "more-likely-than-not" of being sustained by the applicable tax authority. Tax positions not deemed to meet the more-likely-than-not threshold would be recorded as a tax benefit or expense in the current year. Adoption of FIN 48 is required for fiscal years beginning after December 15, 2006 and is to be applied to all open tax years as of the effective date. Recent SEC guidance allows funds to delay implementing FIN 48 into NAV calculations until the fund's last NAV calculation in the first required financial statement reporting period. As a result, the Funds must begin to incorporate FIN 48 into their NAV calculations by July 31, 2007. At this time, management is continuing to evaluate the implications of FIN 48 and does not expect the adoption of FIN 48 will have a significant impact on the net assets or results of operations of the Funds.

### Financial Accounting Standards Board Statement of Financial Accounting Standards No. 157

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, "Fair Value Measurements." This standard establishes a single authoritative definition of fair value, sets out a framework for measuring fair value and requires

Edgar Filing: NUVEEN ARIZONA DIVIDEND ADVANTAGE MUNICIPAL FUND 3 - Form N-CSRS

additional disclosures about fair value measurements. SFAS No. 157 applies to fair value measurements already required or permitted by existing standards. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The changes to current generally accepted accounting principles from the application of this standard relate to the definition of fair value, the methods used to measure fair value, and the expanded disclosures about fair value measurements. As of January 31, 2007, the Funds do not believe the adoption of SFAS No. 157 will impact the financial statement amounts; however, additional disclosures may be required about the inputs used to develop the measurements and the effect of certain of the measurements included within the Statement of Operations for the period.

7. SUBSEQUENT EVENTS

Distributions to Common Shareholders

The Funds declared Common share dividend distributions from their tax-exempt net investment income which were paid on March 1, 2007, to shareholders of record on February 15, 2007, as follows:

	ARIZONA PREMIUM INCOME (NAZ)	ARIZONA DIVIDEND ADVANTAGE (NFZ)	ARIZONA DIVIDEND ADVANTAGE 2 (NKR)	ARIZONA DIVIDEND ADVANTAGE 3 (NXE)
Dividend per share	\$ .0510	\$ .0585	\$ .0615	\$ .0565

48

Financial  
HIGHLIGHTS (Unaudited)

49

Financial  
HIGHLIGHTS (Unaudited)

Selected data for a Common share outstanding throughout each period:

Beginning Common Share Net Asset Value	Investment Operations						Total
	Net Investment Income	Net Realized/ Unrealized Gain (Loss)	Distributions from Net Investment Income to Preferred Share- holders+	Distributions from Capital Gains to Preferred Share- holders+			



Edgar Filing: NUVEEN ARIZONA DIVIDEND ADVANTAGE MUNICIPAL FUND 3 - Form N-CSRS

ARIZONA PREMIUM  
INCOME (NAZ)

Year Ended 7/31:

2007 (a)	\$14.10	\$ .42	\$.16	\$ (.11)	\$ --	\$ .47
2006	14.53	.83	(.39)	(.18)	--	.26
2005	14.04	.86	.56	(.09)	--	1.33
2004	13.66	.92	.43	(.05)	--	1.30
2003	14.25	.97	(.57)	(.07)	--	.33
2002	14.77	1.07	(.57)	(.09)	(.01)	.40

ARIZONA DIVIDEND  
ADVANTAGE (NFZ)

Year Ended 7/31:

2007 (a)	14.77	.46	.20	(.12)	(.02)	.52
2006	15.37	.93	(.40)	(.20)	(.01)	.32
2005	15.00	.97	.46	(.10)	--	1.33
2004	14.45	.99	.57	(.06)	--	1.50
2003	14.81	1.00	(.38)	(.07)	(.01)	.54
2002	14.37	1.04	.36	(.11)	--	1.29

Total Returns

	Offering Costs and Preferred Share Underwriting Discounts	Ending Common Share Net Asset Value	Ending Market Value	Based on Market Value**	Based on Common Share Net Asset Value**
--	--	---	---------------------------	----------------------------------	---

ARIZONA PREMIUM  
INCOME (NAZ)

Year Ended 7/31:

2007 (a)	\$ --	\$14.26	\$13.93	4.02%	3.30%
2006	--	14.10	13.69	(5.62)	1.84
2005	--	14.53	15.22	5.17	9.69
2004	--	14.04	15.27	7.97	9.66
2003	--	13.66	15.00	(5.98)	2.21
2002	--	14.25	16.90	9.63	2.88

ARIZONA DIVIDEND  
ADVANTAGE (NFZ)

Year Ended 7/31:

2007 (a)	--	14.86	15.08	(2.50)	3.51
2006	--	14.77	15.90	4.54	2.14
2005	--	15.37	16.08	10.88	9.04
2004	--	15.00	15.40	7.05	10.56
2003	.02	14.45	15.30	3.06	3.67
2002	--	14.81	15.75	6.38	9.32

Ratios/Supplemental Data

Ratios to Average Net Assets  
Applicable to Common Shares

Ratios to Average Net Assets  
Applicable to Common Shares

Edgar Filing: NUVEEN ARIZONA DIVIDEND ADVANTAGE MUNICIPAL FUND 3 - Form N-CSRS

	Ending Net Assets Applicable to Common Shares (000)	Before Credit/Reimbursement			After Credit/	
		Expenses Including Interest++ (b)	Expenses Excluding Interest++ (b)	Net Investment Income++	Expenses Including Interest++ (b)	Exp Excl
ARIZONA PREMIUM INCOME (NAZ)						
Year Ended 7/31:						
2007 (a)	\$63,713	1.28%*	1.23%*	5.71%*	1.26%*	
2006	63,024	1.21	1.21	5.83	1.19	
2005	64,822	1.20	1.20	5.91	1.19	
2004	62,431	1.22	1.22	6.49	1.21	
2003	60,547	1.25	1.25	6.81	1.24	
2002	62,876	1.28	1.28	7.45	1.26	

ARIZONA DIVIDEND ADVANTAGE (NFZ)

Year Ended 7/31:						
2007 (a)	23,011	1.42*	1.38*	5.62*	1.00*	
2006	22,862	1.36	1.36	5.79	.92	
2005	23,753	1.34	1.34	5.82	.87	
2004	23,153	1.30	1.30	6.10	.83	
2003	22,290	1.35	1.35	6.11	.91	
2002	22,791	1.41	1.41	6.72	.93	

	Preferred Shares at End of Period			Floating Rate Obligations at End of Period	
	Aggregate Amount Outstanding (000)	Liquidation and Market Value Per Share	Asset Coverage Per Share	Aggregate Amount Outstanding (000)	Asset Coverage Per \$1,000
ARIZONA PREMIUM INCOME (NAZ)					
Year Ended 7/31:					
2007 (a)	\$30,000	\$25,000	\$78,094	\$2,054	\$46,617
2006	30,000	25,000	77,520	--	--
2005	30,000	25,000	79,019	--	--
2004	30,000	25,000	77,026	--	--
2003	30,000	25,000	75,456	--	--
2002	30,000	25,000	77,397	--	--

ARIZONA DIVIDEND ADVANTAGE (NFZ)

Year Ended 7/31:					
2007 (a)	12,000	25,000	72,940	623	57,210
2006	12,000	25,000	72,628	--	--
2005	12,000	25,000	74,485	--	--
2004	12,000	25,000	73,235	--	--
2003	12,000	25,000	71,438	--	--
2002	12,000	25,000	72,480	--	--

- \* Annualized.
- \*\* Total Return on Market Value is the combination of changes in the market price per share and the effect of reinvested dividend income and reinvested capital gains distributions, if any, at the average price paid per share at the time of reinvestment. Total Return on Common Share Net Asset Value is the combination of changes in Common Share net asset value, reinvested dividend income at net asset value and reinvested capital gains distributions at net asset value, if any. Total returns are not annualized.
- \*\*\* After custodian fee credit and expense reimbursement, where applicable.
- + The amounts shown are based on Common share equivalents.
- ++ Ratios do not reflect the effect of dividend payments to Preferred shareholders; income ratios reflect income earned on assets attributable to Preferred shares.
- (a) For the six months ended January 31, 2007.
- (b) Interest expense arises from the application of SFAS No. 140 to certain inverse floating rate transactions entered into by the Fund as more fully described in Footnote 1 - Inverse Floating Rate Securities.

See accompanying notes to financial statements.

50-51 spread

FINANCIAL HIGHLIGHTS (Unaudited) (continued)

Selected data for a Common share outstanding throughout each period:

	Investment Operations						Total
	Beginning Common Share Net Asset Value	Net Investment Income	Net Realized/ Unrealized Gain (Loss)	Distributions from Net Investment Income to Preferred Share- holders+	Distributions from Capital Gains to Preferred Share- holders+		
=====							
ARIZONA DIVIDEND ADVANTAGE 2 (NKR)							
-----							
Year Ended 7/31:							
2007 (c)	\$15.00	\$.48	\$.14	\$ (.12)	\$ (.01)		\$ .49
2006	15.56	.96	(.37)	(.20)	(.01)		.38
2005	15.10	.97	.59	(.11)	(.01)		1.44
2004	14.57	.96	.53	(.06)	--		1.43
2003	14.88	.96	(.31)	(.08)	--		.57
2002 (a)	14.33	.24	.71	(.02)	--		.93

ARIZONA DIVIDEND  
ADVANTAGE 3 (NXE)

Edgar Filing: NUVEEN ARIZONA DIVIDEND ADVANTAGE MUNICIPAL FUND 3 - Form N-CSRS

Year Ended 7/31:						
2007 (c)	14.32	.45	.17	(.12)	--	.50
2006	14.62	.88	(.26)	(.19)	--	.43
2005	14.01	.89	.62	(.10)	--	1.41
2004	13.45	.89	.54	(.06)	--	1.37
2003 (b)	14.33	.66	(.67)	(.05)	--	(.06)

Total Returns					
	Offering Costs and Preferred Share Underwriting Discounts	Ending Common Share Net Asset Value	Ending Market Value	Based on Market Value**	Based on Common Share Net Asset Value**

ARIZONA DIVIDEND ADVANTAGE 2 (NKR)

Year Ended 7/31:					
2007 (c)	\$ --	\$15.08	\$15.16	1.31%	3.27%
2006	--	15.00	15.37	.82	2.49
2005	--	15.56	16.19	16.30	9.74
2004	--	15.10	14.82	9.46	9.98
2003	(.01)	14.57	14.40	(3.53)	3.67
2002 (a)	(.16)	14.88	15.80	6.81	5.38

ARIZONA DIVIDEND ADVANTAGE 3 (NXE)

Year Ended 7/31:					
2007 (c)	--	14.48	14.25	7.97	3.48
2006	--	14.32	13.52	(1.80)	3.03
2005	--	14.62	14.48	15.11	10.21
2004	(.01)	14.01	13.30	1.01	10.25
2003 (b)	(.21)	13.45	13.97	(2.76)	(2.05)

Ratios/Supplemental Data

Ratios to Average Net Assets Applicable to Common Shares Before Credit/Reimbursement			Ratios to Average Net Assets Applicable to Common Shares After Credit/Reimbursement		
Ending Net Assets Applicable to Common Shares (000)	Expenses Including Interest++ (d)	Expenses Excluding Interest++ (d)	Net Investment Income++	Expenses Including Interest++ (d)	Expenses Excluding Interest++ (d)

ARIZONA DIVIDEND ADVANTAGE 2 (NKR)

Year Ended 7/31:					
2007 (c)	36,679	1.32%*	1.28%*	5.82%*	.85%*

Edgar Filing: NUVEEN ARIZONA DIVIDEND ADVANTAGE MUNICIPAL FUND 3 - Form N-CSRS

2006	36,465	1.28	1.28	5.88	.82
2005	37,704	1.27	1.27	5.76	.82
2004	36,543	1.27	1.27	5.83	.80
2003	35,237	1.27	1.27	5.78	.82
2002 (a)	35,913	1.19*	1.19*	4.43*	.77*

ARIZONA DIVIDEND  
ADVANTAGE 3 (NXE)

Year Ended 7/31:

2007 (c)	44,429	1.31*	1.27*	5.56*	.81*
2006	43,913	1.26	1.26	5.63	.78
2005	44,829	1.25	1.25	5.63	.76
2004	42,983	1.25	1.25	5.80	.76
2003 (b)	41,247	1.19*	1.19*	5.05*	.73*

Preferred Shares at End of Period			Floating Rate Obligations at End of Period	
Aggregate Amount Outstanding (000)	Liquidation and Market Value Per Share	Asset Coverage Per Share	Aggregate Amount Outstanding (000)	Asset Coverage Per \$1,000

ARIZONA DIVIDEND  
ADVANTAGE 2 (NKR)

Year Ended 7/31:

2007 (c)	\$18,500	\$25,000	\$74,566	\$ 994	\$56,484
2006	18,500	25,000	74,277	--	--
2005	18,500	25,000	75,952	--	--
2004	18,500	25,000	74,382	--	--
2003	18,500	25,000	72,618	--	--
2002 (a)	18,500	25,000	73,531	--	--

ARIZONA DIVIDEND  
ADVANTAGE 3 (NXE)

Year Ended 7/31:

2007 (c)	22,000	25,000	75,487	1,185	57,040
2006	22,000	25,000	74,902	--	--
2005	22,000	25,000	75,942	--	--
2004	22,000	25,000	73,844	--	--
2003 (b)	22,000	25,000	71,872	--	--

\* Annualized.

\*\* Total Return on Market Value is the combination of changes in the market price per share and the effect of reinvested dividend income and reinvested capital gains distributions, if any, at the average price paid per share at the time of reinvestment. Total Return on Common Share Net Asset Value is the combination of changes in Common Share net asset value, reinvested dividend income at net asset value and reinvested capital gains distributions at net asset value, if any. Total returns are not annualized.

\*\*\* After custodian fee credit and expense reimbursement, where applicable.

+ The amounts shown are based on Common share equivalents.

++ Ratios do not reflect the effect of dividend payments to Preferred

Edgar Filing: NUVEEN ARIZONA DIVIDEND ADVANTAGE MUNICIPAL FUND 3 - Form N-CSRS

shareholders; income ratios reflect income earned on assets attributable to Preferred shares.

- (a) For the period March 25, 2002 (commencement of operations) through July 31, 2002.
- (b) For the period September 25, 2002 (commencement of operations) through July 31, 2003.
- (c) For the six months ended January 31, 2007.
- (d) Interest expense arises from the application of SFAS No. 140 to certain inverse floating rate transactions entered into by the Fund as more fully described in Footnote 1 - Inverse Floating Rate Securities.

See accompanying notes to financial statements.

52-53 spread

FINANCIAL HIGHLIGHTS (Unaudited) (continued)

Selected data for a Common share outstanding throughout each period:

Beginning Common Share Net Asset Value	Investment Operations					Total
	Investment Income	Net Realized/ Unrealized Gain (Loss)	Distributions from Net Investment Income to Preferred Share- holders+	Distributions from Capital Gains to Preferred Share- holders+		
=====						
TEXAS QUALITY						
INCOME (NTX)						
-----						
Year Ended 7/31:						
2007 (a)	\$15.06	\$ .48	\$.18	\$ (.12)	\$ (.01)	\$ .53
2006	15.46	.96	(.32)	(.22)	--	.42
2005	15.12	1.00	.41	(.13)	--	1.28
2004	14.57	1.03	.55	(.07)	--	1.51
2003	15.14	1.05	(.58)	(.08)	--	.39
2002	15.16	1.11	(.02)	(.10)	(.02)	.97
=====						

Offering Costs and Preferred Share Underwriting Discounts	Ending Common Share Net Asset Value	Ending Market Value	Total Returns	
			Based on Market Value**	Based on Common Share Net Asset Value**
-----				
=====				

TEXAS QUALITY

Edgar Filing: NUVEEN ARIZONA DIVIDEND ADVANTAGE MUNICIPAL FUND 3 - Form N-CSRS

INCOME (NTX)

Year Ended 7/31:					
2007 (a)	\$ --	\$15.18	\$14.54	1.57%	3.47%
2006	--	15.06	14.71	(4.03)	2.77
2005	--	15.46	16.19	17.83	8.61
2004	--	15.12	14.59	5.87	10.51
2003	--	14.57	14.71	4.14	2.54
2002	--	15.14	15.07	9.29	6.61

Ratios/Supplemental Data

	Ratios to Average Net Assets Applicable to Common Shares Before Credit/Reimbursement			Ratios to Average Net Assets Applicable to Common Shares After Credit/Reimbursement		
	Ending Net Assets Applicable to Common Shares (000)	Expenses Including Interest++ (b)	Expenses Excluding Interest++ (b)	Net Investment Income++	Expenses Including Interest++ (b)	Expenses Excluding Interest++ (b)
2007 (a)	144,142	1.20%*	1.18%*	6.14%*	1.18%*	1.18%*
2006	143,009	1.19	1.19	6.31	1.18	1.18
2005	146,718	1.18	1.18	6.42	1.16	1.16
2004	143,233	1.18	1.18	6.77	1.18	1.18
2003	137,975	1.20	1.20	6.93	1.19	1.19
2002	143,305	1.23	1.23	7.40	1.22	1.22

TEXAS QUALITY  
INCOME (NTX)

Year Ended 7/31:					
2007 (a)	144,142	1.20%*	1.18%*	6.14%*	1.18%*
2006	143,009	1.19	1.19	6.31	1.18
2005	146,718	1.18	1.18	6.42	1.16
2004	143,233	1.18	1.18	6.77	1.18
2003	137,975	1.20	1.20	6.93	1.19
2002	143,305	1.23	1.23	7.40	1.22

Preferred Shares at End of Period			Floating Rate Obligations at End of Period		
Aggregate Amount Outstanding (000)	Liquidation and Market Value Per Share	Asset Coverage Per Share	Aggregate Amount Outstanding (000)	Asset Coverage Per \$1,000	
2007 (a)	\$69,000	\$25,000	\$77,225	\$3,775	\$57,461
2006	69,000	25,000	76,815	--	--
2005	69,000	25,000	78,159	--	--
2004	69,000	25,000	76,896	--	--
2003	69,000	25,000	74,991	--	--
2002	69,000	25,000	76,922	--	--

TEXAS QUALITY INCOME (NTX)

Year Ended 7/31:					
2007 (a)	\$69,000	\$25,000	\$77,225	\$3,775	\$57,461
2006	69,000	25,000	76,815	--	--
2005	69,000	25,000	78,159	--	--
2004	69,000	25,000	76,896	--	--
2003	69,000	25,000	74,991	--	--
2002	69,000	25,000	76,922	--	--

\* Annualized.

\*\* Total Return on Market Value is the combination of changes in the market price per share and the effect of reinvested dividend income and reinvested capital gains distributions, if any, at the average price paid per share at the time of reinvestment. Total Return on Common Share Net Asset Value is

## Edgar Filing: NUVEEN ARIZONA DIVIDEND ADVANTAGE MUNICIPAL FUND 3 - Form N-CSRS

the combination of changes in Common Share net asset value, reinvested dividend income at net asset value and reinvested capital gains distributions at net asset value, if any. Total returns are not annualized.

- \*\*\* After custodian fee credit and expense reimbursement, where applicable.
- + The amounts shown are based on Common share equivalents.
- ++ Ratios do not reflect the effect of dividend payments to Preferred shareholders; income ratios reflect income earned on assets attributable to Preferred shares.
- (a) For the six months ended January 31, 2007.
- (b) Interest expense arises from the application of SFAS No. 140 to certain inverse floating rate transactions entered into by the Fund as more fully described in Footnote 1 - Inverse Floating Rate Securities.

See accompanying notes to financial statements.

54-55 spread

Reinvest Automatically  
EASILY AND CONVENIENTLY

Sidebar text: NUVEEN MAKES REINVESTING EASY. A PHONE CALL IS ALL IT TAKES TO SET UP YOUR REINVESTMENT ACCOUNT.

NUVEEN CLOSED-END FUNDS  
DIVIDEND REINVESTMENT PLAN

Your Nuveen Closed-End Fund allows you to conveniently reinvest dividends and/or capital gains distributions in additional fund shares.

By choosing to reinvest, you'll be able to invest money regularly and automatically, and watch your investment grow through the power of tax-free compounding. Just like dividends or distributions in cash, there may be times when income or capital gains taxes may be payable on dividends or distributions that are reinvested.

It is important to note that an automatic reinvestment plan does not ensure a profit, nor does it protect you against loss in a declining market.

EASY AND CONVENIENT

To make recordkeeping easy and convenient, each month you'll receive a statement showing your total dividends and distributions, the date of investment, the shares acquired and the price per share, and the total number of shares you own.

HOW SHARES ARE PURCHASED

The shares you acquire by reinvesting will either be purchased on the open market or newly issued by the Fund. If the shares are trading at or above net asset value at the time of valuation, the Fund will issue new shares at the then-current market price. If the shares are trading at less than net asset value, shares for your account will be purchased on the open market. Dividends and distributions received to purchase shares in the open market will normally be invested shortly after the dividend payment date. No interest will be paid on



dividends and distributions awaiting reinvestment. Because the market price of the shares may increase before purchases are completed, the average purchase price per share may exceed the market price at the time of valuation, resulting in the acquisition of fewer shares than if the dividend or distribution had been paid in shares issued by the Fund. A pro rata portion of any applicable brokerage commissions on open market purchases will be paid by Plan participants. These commissions usually will be lower than those charged on individual transactions.

FLEXIBLE

You may change your distribution option or withdraw from the Plan at any time, should your needs or situation change. Should you withdraw, you can receive a certificate for all whole shares credited to your reinvestment account and cash payment for fractional shares, or cash payment for all reinvestment account shares, less brokerage commissions and a \$2.50 service fee.

You can reinvest whether your shares are registered in your name, or in the name of a brokerage firm, bank, or other nominee. Ask your investment advisor if his or her firm will participate on your behalf. Participants whose shares are registered in the name of one firm may not be able to transfer the shares to another firm and continue to participate in the Plan.

The Fund reserves the right to amend or terminate the Plan at any time. Although the Fund reserves the right to amend the Plan to include a service charge payable by the participants, there is no direct service charge to participants in the Plan at this time.

CALL TODAY TO START REINVESTING DIVIDENDS AND/OR DISTRIBUTIONS

For more information on the Nuveen Automatic Reinvestment Plan or to enroll in or withdraw from the Plan, speak with your financial advisor or call us at (800) 257-8787.

Automatic Dividend  
REINVESTMENT PLAN

NOTICE OF AMENDMENT TO THE TERMS AND CONDITIONS

These Funds are amending the terms and conditions of their Automatic Dividend Reinvestment Plan (the "Plan") as further described below effective with the close of business on May 1, 2007. THESE CHANGES ARE INTENDED TO ENABLE PLAN PARTICIPANTS UNDER CERTAIN CIRCUMSTANCES TO REINVEST FUND DISTRIBUTIONS AT A LOWER AGGREGATE COST THAN IS POSSIBLE UNDER THE EXISTING PLAN. Shareholders who do not wish to continue as participants under the amended Plan may withdraw from the Plan by notifying the Plan Agent prior to the effective date of the amendments. Participants should refer to their Plan document for notification instructions, or may simply call Nuveen at (800) 257-8787.

Fund shareholders who elect to participate in the Plan are able to have Fund distributions consisting of income dividends, realized capital gains and returns of capital automatically reinvested in additional Fund shares. Under the Plan's existing terms, the Plan Agent purchases Fund shares in the open market if the Fund's shares are trading at a discount to their net asset value on the payable date for the distribution. If the Fund's shares are trading at or above their

net asset value on the payable date for the distribution, the Plan Agent purchases newly-issued Fund shares directly from the Fund at a price equal to the greater of the shares' net asset value or 95% of the shares' market value.

Under the Plan's amended terms, if the Plan Agent begins purchasing Fund shares on the open market while shares are trading below net asset value, but the Fund's shares subsequently trade at or above their net asset value before the Plan Agent is able to complete its purchases, the Plan Agent may cease open-market purchases and may invest the uninvested portion of the distribution in newly-issued Fund shares at a price equal to the greater of the shares' net asset value or 95% of the shares' market value. This change will permit Plan participants under these circumstances to reinvest Fund distributions at a lower aggregate cost than is possible under the existing Plan.

57

Notes

58

Other Useful  
INFORMATION

QUARTERLY PORTFOLIO OF INVESTMENTS AND PROXY VOTING INFORMATION

Each Fund's (i) quarterly portfolio of investments, (ii) information regarding how the Funds voted proxies relating to portfolio securities held during the 12-month period ended June 30, 2006, and (iii) a description of the policies and procedures that the Funds used to determine how to vote proxies relating to portfolio securities are available without charge, upon request, by calling Nuveen Investments toll-free at (800) 257-8787 or on Nuveen's website at [www.nuveen.com](http://www.nuveen.com).

You may also obtain this and other Fund information directly from the Securities and Exchange Commission ("SEC"). The SEC may charge a copying fee for this information. Visit the SEC on-line at <http://www.sec.gov> or in person at the SEC's Public Reference Room in Washington, D.C. Call the SEC at 1-202-942-8090 for room hours and operation. You may also request Fund information by sending an e-mail request to [publicinfo@sec.gov](mailto:publicinfo@sec.gov) or by writing to the SEC's Public References Section at 450 Fifth Street NW, Washington, D.C. 20549.

CEO CERTIFICATION DISCLOSURE

Each Fund's Chief Executive Officer has submitted to the New York Stock Exchange the annual CEO certification as required by Section 303A.12(a) of the NYSE Listed Company Manual.

Each Fund has filed with the Securities and Exchange Commission the certification of its Chief Executive Officer and Chief Financial Officer required by Section 302 of the Sarbanes-Oxley Act.

GLOSSARY OF TERMS USED IN THIS REPORT

**AVERAGE ANNUAL TOTAL RETURN:** This is a commonly used method to express an investment's performance over a particular, usually multi-year time period. It expresses the return that would have been necessary each year to equal the

## Edgar Filing: NUVEEN ARIZONA DIVIDEND ADVANTAGE MUNICIPAL FUND 3 - Form N-CSRS

investment's actual cumulative performance (including change in NAV or market price and reinvested dividends and capital gains distributions, if any) over the time period being considered.

**AVERAGE EFFECTIVE MATURITY:** The average of the number of years to maturity of the bonds in a Fund's portfolio, computed by weighting each bond's time to maturity (the date the security comes due) by the market value of the security. This figure does not account for the likelihood of prepayments or the exercise of call provisions unless an escrow account has been established to redeem the bond before maturity. The market value weighting for an investment in an inverse floating rate security is the value of the portfolio's residual interest in the inverse floating rate trust, and does not include the value of the floating rate securities issued by the trust.

**INVERSE FLOATERS:** Inverse floating rate securities are created by depositing a municipal bond, typically with a fixed interest rate, into a special purpose trust created by a broker-dealer. This trust, in turn, (a) issues floating rate certificates typically paying short-term tax-exempt interest rates to third parties in amounts equal to some fraction of the deposited bond's par amount or market value, and (b) issues an inverse floating rate certificate (sometimes referred to as an "inverse floater") to an investor (such as a Fund) interested in gaining investment exposure to a long-term municipal bond. The income received by the holder of the inverse floater varies inversely with the short-term rate paid to the floating rate certificates' holders, and in most circumstances the holder of the inverse floater bears substantially all of the underlying bond's downside investment risk. The holder of the inverse floater typically also benefits disproportionately from any potential appreciation of the underlying bond's value. Hence, an inverse floater essentially represents an investment in the underlying bond on a leveraged basis.

**LEVERAGE-ADJUSTED DURATION:** Duration is a measure of the expected period over which a bond's principal and interest will be paid, and consequently is a measure of the sensitivity of a bond's or bond Fund's value to changes when market interest rates change. Generally, the longer a bond's or Fund's duration, the more the price of the bond or Fund will change as interest rates change. Leverage-adjusted duration takes into account the leveraging process for a Fund and therefore is longer than the duration of the Fund's portfolio of bonds.

**MARKET YIELD (ALSO KNOWN AS DIVIDEND YIELD OR CURRENT YIELD):** An investment's current annualized dividend divided by its current market price.

**NET ASSET VALUE (NAV):** A Fund's common share NAV per share is calculated by subtracting the liabilities of the Fund (including any MuniPreferred shares issued in order to leverage the Fund) from its total assets and then dividing the remainder by the number of shares outstanding. Fund NAVs are calculated at the end of each business day.

**TAXABLE-EQUIVALENT YIELD:** The yield necessary from a fully taxable investment to equal, on an after-tax basis, the yield of a municipal bond investment.

### BOARD OF DIRECTORS/TRUSTEES

Robert P. Bremner  
Lawrence H. Brown  
Jack B. Evans  
William C. Hunter  
David J. Kundert  
William J. Schneider  
Timothy R. Schwertfeger  
Judith M. Stockdale  
Carol E. Stone  
Eugene S. Sunshine

## Edgar Filing: NUVEEN ARIZONA DIVIDEND ADVANTAGE MUNICIPAL FUND 3 - Form N-CSRS

### FUND MANAGER

Nuveen Asset Management  
333 West Wacker Drive  
Chicago, IL 60606

### CUSTODIAN

State Street Bank & Trust Company  
Boston, MA

### TRANSFER AGENT AND SHAREHOLDER SERVICES

State Street Bank & Trust Company  
Nuveen Funds  
P.O. Box 43071  
Providence, RI 02940-3071

(800) 257-8787

### LEGAL COUNSEL

Chapman and Cutler LLP  
Chicago, IL

### INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Ernst & Young LLP  
Chicago, IL

Each Fund intends to repurchase shares of its own common or preferred stock in the future at such times and in such amounts as is deemed advisable. No shares were repurchased during the period covered by this report. Any future repurchases will be reported to shareholders in the next annual or semiannual report.

59

### Nuveen Investments:

SERVING Investors

For GENERATIONS

Photo of: 2 women looking at a photo album.

Since 1898, financial advisors and their clients have relied on Nuveen Investments to provide dependable investment solutions. For the past century, Nuveen Investments has adhered to the belief that the best approach to investing is to apply conservative risk-management principles to help minimize volatility.

Building on this tradition, we today offer a range of high quality equity and fixed-income solutions that are integral to a well-diversified core portfolio. Our clients have come to appreciate this diversity, as well as our continued adherence to proven, long-term investing principles.

WE OFFER MANY DIFFERENT INVESTING SOLUTIONS FOR OUR CLIENTS' DIFFERENT NEEDS.

Managing approximately \$162 billion in assets, as of December 31, 2006, Nuveen Investments offers access to a number of different asset classes and investing solutions through a variety of products. Nuveen Investments markets its

## Edgar Filing: NUVEEN ARIZONA DIVIDEND ADVANTAGE MUNICIPAL FUND 3 - Form N-CSRS

capabilities under six distinct brands: NWQ, specializing in value-style equities; Nuveen, managing fixed-income investments; Santa Barbara, committed to growth equities; Tradewinds, specializing in global value equities; Rittenhouse, focused on "blue-chip" growth equities; and Symphony, with expertise in alternative investments as well as equity and income portfolios.

FIND OUT HOW WE CAN HELP YOU REACH YOUR FINANCIAL GOALS.

To learn more about the products and services Nuveen Investments offers, talk to your financial advisor, or call us at (800) 257-8787. Please read the information provided carefully before you invest.

Be sure to obtain a prospectus, where applicable. Investors should consider the investment objective and policies, risk considerations, charges and expenses of the Fund carefully before investing. The prospectus contains this and other information relevant to an investment in the Fund. For a prospectus, please contact your securities representative or Nuveen Investments, 333 W. Wacker Dr., Chicago, IL 60606. Please read the prospectus carefully before you invest or send money.

Learn more about Nuveen Funds at <a href="http://WWW.NUVEEN.COM/CEF">WWW.NUVEEN.COM/CEF</a>	<ul style="list-style-type: none"><li>o Share prices</li><li>o Fund details</li><li>o Daily financial news</li><li>o Investor education</li><li>o Interactive planning tools</li></ul>
---	--

Logo: NUVEEN Investments

ESA-A-0107D

ITEM 2. CODE OF ETHICS.

Not applicable to this filing.

ITEM 3. AUDIT COMMITTEE FINANCIAL EXPERT.

Not applicable to this filing.

ITEM 4. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

Not applicable to this filing.

ITEM 5. AUDIT COMMITTEE OF LISTED REGISTRANTS.

Not applicable to this filing.

ITEM 6. SCHEDULE OF INVESTMENTS.

See Portfolio of Investments in Item 1.

ITEM 7. DISCLOSURE OF PROXY VOTING POLICIES AND PROCEDURES FOR CLOSED-END MANAGEMENT INVESTMENT COMPANIES.

Not applicable to this filing.

ITEM 8. PORTFOLIO MANAGERS OF CLOSED-END MANAGEMENT INVESTMENT COMPANIES.

Not applicable to this filing.

## Edgar Filing: NUVEEN ARIZONA DIVIDEND ADVANTAGE MUNICIPAL FUND 3 - Form N-CSRS

### ITEM 9. PURCHASES OF EQUITY SECURITIES BY CLOSED-END MANAGEMENT INVESTMENT COMPANY AND AFFILIATED PURCHASERS.

Not applicable.

### ITEM 10. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

There have been no material changes to the procedures by which shareholders may recommend nominees to the registrant's Board implemented after the registrant last provided disclosure in response to this Item.

### ITEM 11. CONTROLS AND PROCEDURES.

- (a) The registrant's principal executive and principal financial officers, or persons performing similar functions, have concluded that the registrant's disclosure controls and procedures (as defined in Rule 30a-3(c) under the Investment Company Act of 1940, as amended (the "1940 Act") (17 CFR 270.30a-3(c))) are effective, as of a date within 90 days of the filing date of this report that includes the disclosure required by this paragraph, based on their evaluation of the controls and procedures required by Rule 30a-3(b) under the 1940 Act (17 CFR 270.30a-3(b)) and Rules 13a-15(b) or 15d-15(b) under the Securities Exchange Act of 1934, as amended (the "Exchange Act") (17 CFR 240.13a-15(b) or 240.15d-15(b)).
- (b) There were no changes in the registrant's internal control over financial reporting (as defined in Rule 30a-3(d) under the 1940 Act (17 CFR 270.30a-3(d)) that occurred during the second fiscal quarter of the period covered by this report that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

### ITEM 12. EXHIBITS.

File the exhibits listed below as part of this Form.

(a)(1) Any code of ethics, or amendment thereto, that is the subject of the disclosure required by Item 2, to the extent that the registrant intends to satisfy the Item 2 requirements through filing of an exhibit: Not applicable to this filing.

(a)(2) A separate certification for each principal executive officer and principal financial officer of the registrant as required by Rule 30a-2(a) under the 1940 Act (17 CFR 270.30a-2(a)) in the exact form set forth below: Ex-99.CERT attached hereto.

(a)(3) Any written solicitation to purchase securities under Rule 23c-1 under the 1940 Act (17 CFR 270.23c-1) sent or given during the period covered by the report by or on behalf of the registrant to 10 or more persons: Not applicable.

(b) If the report is filed under Section 13(a) or 15(d) of the Exchange Act, provide the certifications required by Rule 30a-2(b) under the 1940 Act (17 CFR 270.30a-2(b)); Rule 13a-14(b) or Rule 15d-14(b) under the Exchange Act (17 CFR 240.13a-14(b) or 240.15d-14(b)), and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. 1350) as an exhibit. A certification furnished pursuant to this paragraph will not be deemed "filed" for purposes of Section 18 of the Exchange Act (15 U.S.C. 78r), or otherwise subject to the liability of that section. Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Exchange Act, except to the extent that the registrant specifically incorporates it by reference. Ex-99.906 CERT attached hereto.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

(Registrant) Nuveen Arizona Dividend Advantage Municipal Fund 3  
-----

By (Signature and Title)\* /s/ Jessica R. Droeger  
-----

Jessica R. Droeger  
Vice President and Secretary

Date: April 9, 2007  
-----

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By (Signature and Title)\* /s/ Gifford R. Zimmerman  
-----

Gifford R. Zimmerman  
Chief Administrative Officer  
(principal executive officer)

Date: April 9, 2007  
-----

By (Signature and Title)\* /s/ Stephen D. Foy  
-----

Stephen D. Foy  
Vice President and Controller  
(principal financial officer)

Date: April 9, 2007  
-----

\* Print the name and title of each signing officer under his or her signature.