

NUVEEN ARIZONA DIVIDEND ADVANTAGE MUNICIPAL FUND 3  
Form N-CSR  
October 08, 2009

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)

Kevin J. McCarthy  
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: July 31, 2009  
-----

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.

LOGO: NUVEEN INVESTMENTS

Closed-End Funds

Nuveen Investments  
Municipal Closed-End Funds  
IT'S NOT WHAT YOU EARN, IT'S WHAT YOU KEEP. (R)

Annual Report  
July 31, 2009

----- 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	

JULY 09

LIFE IS COMPLEX.

Nuveen makes things e-simple.

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 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.

Free e-Reports right to your e-mail!

[WWW.INVESTORDELIVERY.COM](http://WWW.INVESTORDELIVERY.COM)

If you receive your Nuveen Fund dividends and statements from your financial advisor or brokerage account.

OR

[WWW.NUVEEN.COM/ACCOUNTACCESS](http://WWW.NUVEEN.COM/ACCOUNTACCESS)

If you receive your Nuveen Fund dividends and statements directly from Nuveen.

LOGO: NUVEEN INVESTMENTS

Chairman's  
Letter to Shareholders

[PHOTO OF ROBERT P. BREMNER]

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

DEAR SHAREHOLDER,

The financial markets in which your Funds operate continue to reflect the larger economic crosscurrents. The illiquidity that infected global credit markets over the last year appears to be slowly but steadily receding. The major institutions that are the linchpin of the international financial system are strengthening their capital structures, but many still struggle with losses in their various portfolios. There are encouraging signs of recovery in European and Asian economies, while the U.S. economy continues to feel the impact of job losses and an over-borrowed consumer. Global trends include modestly increasing trade and increased concern about the ability of the U.S. government to address its substantial budgetary deficits. Identifying those developments that will define the future is never easy, but rarely is it more difficult than at present.

After considerable volatility in the first few months of 2009, both the fixed-income and equity markets have seen a partial recovery. A fundamental component of a successful long-term investment program is a commitment to remain invested during market downturns in order to share in the rewards of the inevitable recovery. Another component is to re-evaluate investment disciplines and tactics and to confirm their validity following periods of extreme volatility and market dislocation, such as we have recently experienced. Your Board carried out an intensive review of investment performance with these objectives in mind during April and May of this year as part of the annual management contract renewal process. I encourage you to read the description of this process in the Annual Investment Management Agreement Approval Process section of this report.

Remaining invested through market downturns and reconfirming the appropriateness of a long term investment strategy is as important for our shareholders as it is for professional investment managers. For that reason, I again encourage you to remain in communication with your financial consultant on these subjects. For recent developments on all your Nuveen Funds, please visit the Nuveen web site: [www.nuveen.com](http://www.nuveen.com).

Nuveen remains committed to resolving the issues connected with outstanding auction rate preferred shares. In September 2009, Nuveen completed the refinancing at par of all the auction rate preferred shares issued by its taxable closed-end funds that were outstanding when the preferred auctions began to fail in the February 2008. For a variety of reasons, refinancing the outstanding preferred shares issued by the municipal closed-end funds is taking longer but Nuveen is diligently pursuing a range of options to accomplish this. Please consult the Nuveen web site for the most recent information about the redemption of MuniPreferred shares.

On behalf of the other members of your Fund's Board, we look forward to continuing to earn your trust in the months and years ahead.

Sincerely,

/s/ Robert P. Bremner

-----  
Robert P. Bremner  
Chairman of the Board  
September 21, 2009

Nuveen Investments 3

Portfolio Managers' Comments

Nuveen Arizona Premium Income Municipal Fund (NAZ)

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

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)

Portfolio managers Scott Romans and Daniel Close discuss economic and municipal market conditions at both the national and state levels, key investment strategies, and the twelve-month performance of these Funds. Scott, who has been with Nuveen since 2000, has managed the Arizona Funds since 2003. Dan, who joined Nuveen in 2000, assumed portfolio management responsibility for NTX in 2007.

WHAT FACTORS AFFECTED THE U.S. ECONOMIC AND MUNICIPAL MARKET ENVIRONMENTS DURING THE TWELVE-MONTH REPORTING PERIOD ENDED JULY 31, 2009?

During this reporting period, downward pressure on the economy continued. In an effort to improve overall economic conditions, the Federal Reserve (Fed) continued to cut interest rates, lowering the fed funds rate from 2.00% on August 1, 2008, to a target range of zero to 0.25% in December 2008, its lowest level on record. In March 2009, the Fed announced that, in addition to maintaining the current target rate, it would buy \$300 billion in long-term Treasury securities in an effort to support private credit markets and up to an additional \$750 billion (for a total of \$1.25 trillion) in agency mortgage-backed securities to bolster the housing market. (At its August 2009 meeting, following the end of this reporting period, the Fed continued to keep the fed funds rate unchanged.)

Additionally, the federal government passed a \$700 billion financial industry rescue package in October 2008, which was followed by a \$787 billion stimulus package in February 2009. The Fed's efforts and the stimulus package were in part a response to the decline in U.S. economic growth, as measured by the U.S. gross domestic product (GDP). Over the four quarters ended June 30, 2009, the GDP experienced its longest decline since quarterly records began in 1947 and the worst recession in 50 years. While housing prices provided something of a bright spot in May and June 2009 by posting their first positive monthly returns after three years of decline, the depth of the housing slump continued to be a source of concern. The average home price fell 14.9% nationally over the twelve-month period ended June 2009, pushing home values to early 2003

CERTAIN STATEMENTS IN THIS REPORT ARE FORWARD-LOOKING STATEMENTS. DISCUSSIONS OF SPECIFIC INVESTMENTS ARE FOR ILLUSTRATION ONLY AND ARE NOT INTENDED AS RECOMMENDATIONS OF INDIVIDUAL INVESTMENTS. THE FORWARD-LOOKING STATEMENTS AND OTHER VIEWS EXPRESSED HEREIN ARE THOSE OF THE PORTFOLIO MANAGERS AS OF THE DATE OF THIS REPORT. ACTUAL FUTURE RESULTS OR OCCURRENCES MAY DIFFER SIGNIFICANTLY FROM THOSE ANTICIPATED IN ANY FORWARD-LOOKING STATEMENTS AND THE VIEWS EXPRESSED HEREIN ARE SUBJECT TO CHANGE AT ANY TIME, DUE TO NUMEROUS MARKET AND OTHER FACTORS. THE FUNDS DISCLAIM ANY OBLIGATION TO UPDATE PUBLICLY OR REVISE ANY FORWARD-LOOKING STATEMENTS OR VIEWS EXPRESSED HEREIN.

4 Nuveen Investments

levels. In the labor markets, July 2009 marked the 19th consecutive month of job losses, with a total of 6.7 million jobs lost since the recession began in December 2007. The national unemployment rate for July 2009 was 9.4%, up from 5.8% in July 2008. At the same time, inflation remained subdued, as the Consumer Price Index (CPI), reflecting a 28% drop in energy prices, fell 2.1% year-over-year as of July 2009, the largest twelve-month decline since 1950. The core CPI (which excludes food and energy) rose 1.5% over this same period, within the Fed's unofficial objective of 2.0% or lower for this measure.

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

During this period, the nation's financial institutions and markets experienced significant turmoil and reductions in demand for many types of securities, which decreased valuations. In the municipal market, this negative impact was felt across all credit ratings, reducing the net asset values of municipal bond funds. In addition, some of the dealer firms that make markets in bonds were unwilling to commit capital to purchase bonds or continue serving as dealers. The reduction in dealer involvement was accompanied by significant selling pressure by investors, especially institutions, predominantly related to lower-rated municipal bonds.

Municipal bond prices were further negatively impacted by concerns that a supply overhang (such as a large backlog of new issues that had been postponed) would cause selling pressure to persist. Additionally, greater price volatility, including wider credit spreads (i.e., lower quality bonds fell in price more than higher quality bonds); greatly reduced liquidity, particularly for lower quality bonds.

Market conditions began to show general signs of improvement in mid-December 2008, and municipal bonds were on an improving trend during the first seven months of 2009. Another positive impact was the reduced supply of tax-exempt municipal debt available in the marketplace, in part because of the introduction of "Build America" bonds in April 2009. This new class of taxable municipal debt--created as part of the February 2009 economic stimulus package--provides municipal issuers with a federal subsidy equal to 35% of the security's interest payments. For many borrowers, these bonds offered an attractive alternative to issuing traditional tax-exempt debt. The Build America bond program got off to a quick start, effectively diverting high-grade tax-exempt new-issue supply into the taxable market. Therefore, a combination of lower issuance along with higher demand provided additional support for municipal bond prices.

Over the twelve months ended July 31, 2009, municipal bond issuance nationwide totaled \$389.2 billion, a drop of approximately 16% compared with the twelve-month period ended July 31, 2008. While market conditions during this period impacted the demand for municipal bonds, investors, especially from the retail sector, continued to be attracted by the high tax-equivalent yields of the municipal bond market relative to taxable bonds.

Nuveen Investments 5

### HOW WERE THE ECONOMIC AND MARKET ENVIRONMENTS IN ARIZONA AND TEXAS DURING THIS PERIOD?

Arizona, which had been experiencing one of the largest economic booms in the country, is now undergoing one of the biggest declines. In terms of GDP by state, growth in Arizona has fallen off dramatically ranking it 43rd in 2008. For 2008, Arizona's economy contracted at a rate of 0.6%, compared with national average growth of 0.7%. Much of this downturn can be tied to the housing decline, a major slowdown in the state's construction industry, and reduced demand in sectors such as leisure and hospitality. Arizona's unemployment rate for July 2009 was 9.2%, the highest in 26 years, up from 5.7% in July 2008. As of July 2009, Moody's maintained its issuer credit rating for Arizona at Aa3 with a stable outlook, while Standard & Poor's (S&P) rated the state at AA with a stable outlook. For the twelve months ended July 31, 2009, municipal issuance in Arizona totaled \$8.9 billion, down approximately 10% from the previous twelve months.

Although growth of the Texas economy has slowed as the national recession deepened, the state ranked eleventh in the nation in terms of GDP by state for 2008, with an economic growth rate of 2.0%, compared with the national average of 0.7%. In 2007, Texas ranked fourth in GDP by state. Fluctuations in the

energy industry accounted for a large part of the variations in state GDP, while weakness in the high-tech sector also had an impact on growth. Although mainly resource-based, the Texas economy remained well diversified, including agriculture, services, and transportation, which continued to benefit from the North American Free Trade Agreement (NAFTA) and its impact on cross-border trade. While unemployment in Texas rose over the past twelve months, from 4.9% in July 2008 to 7.9% in July 2009, the state's growth helped to hold the jobless rate below the national average. As of July 31, 2009, Moody's and Fitch maintained their ratings on Texas-backed general obligation (GO) debt at Aa1 and AA+, respectively. On August 13, 2009, following the end of this reporting period, Standard & Poor's (S&P) raised Texas's GO credit rating to AA+ from AA based on the diversity and strength of the state's economy. For the twelve months ended July 31, 2009, municipal issuance in Texas totaled \$36.5 billion. Although this represented a decrease of 18% from the previous twelve months, Texas ranked as the third largest state issuer behind California and New York.

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

During this twelve-month period, as the municipal market remained under pressure from price volatility, reduced liquidity and fundamental economic concerns, we continued to focus on liquidity and on finding securities that offered relative value and attractive long-term potential.

In view of the relatively volatile market situation over the period, we believed that it was important to focus on managing and preserving liquidity. While this was particularly true

6 Nuveen Investments

during the fall of 2008, liquidity continued to be a dominant issue throughout the period. Overall, our objective in the Arizona funds was to position them somewhat more defensively by retaining slightly more cash than usual in order to improve the Funds' liquidity profiles and have the capital we needed to reinvest at opportune times.

On the whole, investment activity in the Arizona Funds was somewhat more limited than usual, as we took a more conservative approach during this period of unprecedented stress. The lower level of turnover was due in part to our efforts to preserve liquidity as well as a reaction to the availability of municipal supply, as overall economic conditions produced several quiet stretches on the issuance calendar. The Build America bond program also contributed to the reduction in new tax-exempt municipal issuance. However, this was also a period when market conditions created opportunities to add names we liked, at significantly discounted prices or at wider spreads. Supply was especially plentiful in the health care sector, due to the fact that hospitals do not qualify for the Build America program and must continue to issue bonds in the tax-exempt municipal market. In some cases, we sold bonds that we judged to be good sell candidates because of their liquidity and performance, such as water revenue bonds, and reinvested the proceeds in bonds with more attractive characteristics in other sectors, including health care.

In NTX, many of our purchases were also driven by opportunities created by market conditions, particularly during late 2008 and early 2009. We sought to capitalize on this environment by continuing to take a bottom-up approach to discovering undervalued sectors and individual credits with the potential to perform well over the long term. Our purchases during the period included uninsured health care, general obligation, transit, utilities and dedicated tax bonds. In general, our emphasis was on adding bonds with longer maturities to take advantage of the spreads offered by the extremely steep yield curve.

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

In addition to the selling in the Arizona Funds mentioned above, cash for new purchases during this period was largely generated by bond calls in all of these Funds. In the Arizona Funds, these calls typically involved community facilities district (CFD) bonds, also known as "dirt deals," and federally guaranteed housing credits. In NTX, we also closed out our position in a lower-rated health care bond that was not performing in line with our expectations.

During the last part of this period, we added new inverse floating rate securities<sup>1</sup> to all the Funds as a form of leverage. We employ inverse floaters for a variety of reasons, including duration<sup>(2)</sup> management and income enhancement. At the beginning of the period, NTX also invested in additional types of derivative instruments to help manage its duration. These derivatives were removed in September 2008. Because of the short time they were in place, all of the derivative positions used by the Funds during this period had a negligible impact on performance.

- (1) An inverse floating rate security, also known as inverse floaters, is a financial instrument designed to pay long-term tax-exempt interest at a rate that varies inversely with a short-term tax-exempt interest rate index. For the Nuveen Funds, the index typically used is the Securities Industry and Financial Markets (SIFM) Municipal Swap Index (previously referred to as the Bond Market Association Index or BMA). Inverse floaters, including those inverse floating rate securities in which the Funds invested during the reporting period, are further defined within the Notes to Financial Statements and Glossary of Terms Used in this Report sections of this shareholder report.
- (2) 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.

Nuveen Investments 7

## HOW DID THE FUNDS PERFORM?

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

AVERAGE ANNUAL TOTAL RETURNS ON COMMON SHARE NET  
ASSET VALUE FOR PERIODS ENDED 7/31/09

	1-YEAR	5-YEAR	10-YEAR
-----			
ARIZONA FUNDS			
NAZ	4.73%	3.32%	4.23%
NFZ	0.58%	2.10%	N/A
NKR	4.09%	3.43%	N/A
NXE	3.08%	3.24%	N/A
Standard & Poor's Arizona Municipal Bond Index (3)	4.57%	4.10%	4.93%
Lipper Other States Municipal Debt Funds Average (4)	3.12%	3.51%	5.01%
Barclays Capital Municipal Bond Index (5)	5.11%	4.21%	5.14%
Standard & Poor's National Municipal Bond Index (6)	3.77%	3.98%	5.00%
TEXAS FUND			
NTX	4.80%	3.75%	5.17%

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

Standard & Poor's Texas Municipal Bond Index (3)	5.35%	4.27%	5.17%
Lipper Other States Municipal Debt Funds Average (4)	3.12%	3.51%	5.01%
Barclays Capital Municipal Bond Index (5)	5.11%	4.21%	5.14%
Standard & Poor's National Municipal Bond Index (6)	3.77%	3.98%	5.00%

---

For the twelve months ended July 31, 2009, the total returns on common share net asset value (NAV) for NAZ was the only Fund to outperform its relevant Standard & Poor's state index. NAZ, NKR and NTX exceeded the return for Standard & Poor's (S&P) National Municipal Index, while all the Funds underperformed the Barclays Capital Municipal Bond Index. NAZ, NKR and NTX also outperformed the Lipper Other States Municipal Debt Funds Average.

Key management factors that influenced the Funds' returns during this period included duration and yield curve positioning, credit exposure and sector allocations and individual security selection. In addition, the use of leverage was an important factor affecting the Funds' performances over this period. The impact of leverage is discussed in more detail on page 9.

Over the course of this twelve-month period, the municipal yield curve remained steep. Bonds in the Barclays Capital Municipal Bond Index with maturities of three to fifteen years, especially those maturing in four to eight years, benefited the most from the interest rate environment. Because they were less sensitive to interest rate changes, these bonds generally outperformed credits with longer maturities, with bonds having the longest maturities (22 years and longer) posting a loss for the period. Overall, NTX benefited from its yield curve positioning, while the Arizona Funds were generally relatively underweight in the less favorable portions of the curve. The range of these underweightings was reflected in the relative performances of the four Funds, with NAZ having only a modest underweight to the top-performing maturity categories and NFZ having a significant underexposure to these categories.

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.

- (3) The Standard & Poor's (S&P) Municipal Bond Indexes for Arizona and Texas are unleveraged market value-weighted indexes designed to measure the performance of the investment-grade municipal bond markets in Arizona and Texas, respectively. These indexes do not reflect any initial or ongoing expenses and are not available for direct investment.
- (4) The Lipper Other States Municipal Debt Funds Average is calculated using the returns of all closed-end funds in this category for each period as follows: 1-year, 46 funds; 5-year, 46 funds; and 10-year, 18 funds. Fund and Lipper returns assume reinvestment of dividends.
- (5) The Barclays Capital (formerly Lehman Brothers) Municipal Bond Index is an unleveraged, unmanaged national index comprising a broad range of investment-grade municipal bonds. Results for the Barclays Capital index do not reflect any expenses. An index is not available for direct investment.
- (6) The Standard & Poor's (S&P) National Municipal Bond Index is an unleveraged, market value-weighted index designed to measure the performance of the investment-grade U.S. municipal bond market.



8 Nuveen Investments

Given the difficult economic environment and the disruptions in the financial markets during this period, risk-averse investors put a priority on quality investments and bonds with higher credit quality exposure typically performed relatively well over the past twelve months. Bonds rated BBB or below and non-rated bonds generally posted poorer returns. Among the Arizona Funds, NAZ had the smallest allocation of BBB and non-rated bonds, which benefited its performance, while NFZ was negatively impacted by its underexposure to the AAA category. On the whole, NTX benefited from its overweighting of AAA rated bonds, although this was countered to a small degree by its exposure to the sub-investment grade category (bonds rated BB and lower).

Pre-refunded(7) bonds, which are backed by U.S. Treasury securities, were one of the top performing segments of the municipal bond market, due primarily to their shorter effective maturities, higher credit quality and perceived safety. Additional sectors of the market that generally made positive contributions to the Funds' returns included general obligation and other tax-supported bonds, water and sewer and education credits. In particular, NAZ and NTX benefited from their heavier allocations to the water and sewer sector and to general obligation bonds, respectively.

Holdings that generally detracted from the Funds' performances included industrial development revenue (IDR), health care and zero coupon bonds, which performed very poorly during this period. The Arizona Funds, especially NFZ, also allocated assets to the "other revenue" category that included CFD bonds. CFD bonds across the nation did not perform well during this period due to concerns about the decline of the housing market as well as weaker demand, particularly from retail buyers in Arizona.

Individual security selection was also a factor in the Funds' performances during this period. In general, NAZ and NXE benefited from higher exposure to bonds backed by municipal bond insurers that were better able to maintain their credit ratings and whose bond insurance policies retained more value in the aftermath of the insurance industry/sub-prime mortgage crisis. In NTX, the bonds we purchased during late 2008 and early 2009, performed well following their addition to our portfolio.

IMPACT OF THE FUNDS' CAPITAL STRUCTURES AND LEVERAGE STRATEGIES ON PERFORMANCE

In this unusual and volatile investment environment, another factor impacting the returns of these Funds relative to the comparative indexes was the Funds' use of financial leverage. The Funds use leverage because their managers believe that, over time, leveraging provides opportunities for additional income and total returns for common shareholders. However, use of leverage also can expose common shareholders to additional risk--especially when market conditions are unfavorable. For example, as the prices of securities held by a Fund declines, the negative impact of these valuation changes on common share net asset value and common shareholder total return is magnified by the use of leverage. During this period, leverage had a mixed impact on the total return performance of these Funds. Generally, leverage was a negative factor in the fall of 2008 and a positive factor in the spring of 2009.

- (7) Pre-refundings, also known as advance 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.

RECENT DEVELOPMENTS REGARDING THE FUND'S LEVERAGED CAPITAL STRUCTURE

As noted in the last several shareholder reports, the auction rate preferred shares issued by many closed-end funds, including these Nuveen Funds, have been hampered by a lack of liquidity since February 2008. Since that time, more auction rate preferred shares have been submitted for sale in their regularly scheduled auctions than there have been offers to buy. This means that these auctions have "failed to clear," and that many, or all, of the auction rate preferred shareholders who wanted to sell their shares in these auctions were unable to do so. This decline in liquidity in auction rate preferred shares did not lower the credit quality of these shares, and auction rate preferred shareholders unable to sell their shares received distributions at the "maximum rate" applicable to failed auctions, as calculated in accordance with the pre-established terms of the auction rate preferred shares.

One continuing implication for common shareholders from the auction failures is that each Fund's cost of leverage likely has been incrementally higher at times than it otherwise might have been had the auctions continued to be successful. As a result, each Fund's common share earnings likely have been incrementally lower at times than they otherwise might have been.

As noted in the last shareholder report, the Funds' Board of Directors/Trustees authorized a plan to use tender option bonds (TOBs), also known as floating rate securities, to refinance a portion of the Funds' outstanding auction rate preferred shares. The amount of TOBs that a Fund may use varies according to the composition of each Fund's portfolio. Some Funds have a greater ability to use TOBs than others. As of July 31, 2009, the amounts of auction rate preferred securities redeemed and/or noticed for redemption, at par, by the following Funds are as shown in the accompanying table.

FUND	AUCTION RATE PREFERRED SHARES REDEEMED	% OF ORIGINAL AUCTION RATE PREFERRED SHARES
NAZ	\$ 2,125,000	7.1%
NFZ	\$ 1,400,000	11.7%
NKR	\$ 1,875,000	10.1%
NXE	\$ 3,600,000	16.4%
NTX	\$ 3,950,000	5.7%

While the Funds' Board of Directors/Trustees and management continue to work to resolve this situation, the Funds cannot provide any assurance on when the remaining outstanding auction rate preferred shares might be redeemed.

As of July 31, 2009, 78 Nuveen closed-end municipal funds have redeemed, at par, a portion of their outstanding auction rate preferred shares. These redemptions bring the total amount of Nuveen's municipal closed-end funds' auction rate preferred share redemptions to approximately \$2.3 billion of the original \$11 billion outstanding.

For up-to-date information, please visit the Nuveen CEF Auction Rate Preferred Resource Center at:  
<http://www.nuveen.com/ResourceCenter/AuctionRatePreferred.aspx>.

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

## Common Share Dividend and Share Price Information

During the twelve-month reporting period ended July 31, 2009, NAZ and NTX each had two monthly dividend increases, while the dividends of NFZ, NKR and NXE remained stable throughout the reporting period.

Due to normal portfolio activity, common shareholders of NTX received long-term capital gains distributions of \$0.0212 per share and short-term capital gains and net ordinary income distributions of \$0.0299 per share at the end of December 2008.

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 July 31, 2009, all of the Funds in this report had positive UNII balances for both tax and financial statement purposes.

Nuveen Investments 11

## COMMON SHARE REPURCHASES AND SHARE PRICE INFORMATION

The Funds' Board of Directors/Trustees approved an open-market share repurchase program on July 30, 2008, under which each Fund may repurchase an aggregate of up to 10% of its outstanding common shares.

As of July 31, 2009, the Funds cumulatively repurchased common shares as shown in the accompanying table. Since the inception of this program, NAZ and NTX have not repurchased any of their outstanding common shares.

FUND	COMMON SHARES REPURCHASED	% OF OUTSTANDING COMMON SHARES
NFZ	2,500	0.2%
NKR	800	0.0%
NXE	1,600	0.1%

During the twelve-month reporting period, the Funds repurchased common shares at a weighted average price and a weighted average discount per common share as shown in the accompanying table.

FUND	COMMON SHARES REPURCHASED	WEIGHTED AVERAGE PRICE PER SHARE REPURCHASED	WEIGHTED AVERAGE DISCOUNT PER SHARE REPURCHASED
NFZ	2,500	\$ 9.60	19.20%
NKR	800	\$ 10.35	17.60%
NXE	1,600	\$ 9.59	18.61%

As of July 31, 2009, the Funds' common share prices were trading at premiums (+) or discounts (-) to their common share NAVs as shown in the accompanying

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

table.

FUND	7/31/09 (+) PREMIUM/ (-) DISCOUNT	TWELVE-MONTH AVERAGE (+) PREMIUM/ (-) DISCOUNT
NAZ	-4.88%	-7.23%
NFZ	-4.11%	-10.86%
NKR	-6.98%	-8.77%
NXE	-8.07%	-11.49%
NTX	+6.79%	-5.71%

12 Nuveen Investments

NAZ Performance OVERVIEW | Nuveen Arizona Premium Income Municipal Fund, Inc.  
as of July 31, 2009

Credit Quality (as a % of total investments)

[PIE CHART]

AAA/U.S. Guaranteed	30%
AA	20%
A	31%
BBB	8%
N/R	11%

2008-2009 Monthly Tax-Free Dividends Per Common Share

[BAR CHART]

Aug	\$	0.051
Sep		0.053
Oct		0.053
Nov		0.053
Dec		0.053
Jan		0.053
Feb		0.053
Mar		0.053
Apr		0.053
May		0.054
Jun		0.054
Jul		0.054

Common Share Price Performance -- Weekly Closing Price

[LINE CHART]

8/01/08	\$	13.1
		13
		12.95
		12.94
		12.72
		12.78
		12.7
		12.68
		12.67
		12.6
		12.63

12.68  
12.65  
12.71  
12.61  
12.6  
12.74  
12.74  
12.7  
12.75  
12.77  
12.77  
12.81  
12.99  
13  
13  
12.95  
12.95  
12.95  
12.79  
12.8  
12.9  
12.72  
12.65  
12.52  
12.9  
12.77  
12.41  
12.45  
12.51  
12.01  
11.14  
11.55  
11.73  
11.65  
11.6325  
11.48  
11.53  
11.01  
10.16  
9.2  
9.8  
10.23  
10.1699  
9.9  
9.62  
9.95  
10.03  
10.38  
10.51  
10.49  
10.59  
10.65  
10.45  
10.55  
10.57  
10.97  
11.23  
11.39  
11.3956  
11.5  
11.48  
11.234

10.83  
10.62  
10.77  
10.5  
9.67  
9.85  
9.19  
9.36  
10.2  
10.09  
10.01  
10.09  
10.09  
10.13  
10.1  
9.85  
9.84  
9.84  
9.84  
9.6  
9.49  
9.35  
9.39  
9.35  
9.17  
9.23  
9.2  
8.94  
8.98  
9.01  
9.052  
9.23  
9.13  
9.19  
9.22  
9.65  
10.1  
10.3  
10.15  
10.55  
10.82  
10.82  
10.75  
10.5  
10.27  
10.56  
10.64  
10.67  
10.41  
10.4  
10.53  
10.67  
10.65  
10.64  
10.8232  
10.8232  
10.81  
10.9  
10.94  
11  
11.01  
11.048

11.2  
11.2  
11.15  
11.23  
10.9  
10.98  
10.98  
10.8981  
10.85  
10.88  
11.18  
10.98  
10.93  
10.93  
10.75  
10.6997  
10.74  
10.7968  
10.83  
10.68  
10.68  
10.58  
10.59  
10.6501  
10.82  
10.85  
10.98  
10.95  
10.96  
10.96  
11.15  
11.2  
11.02  
11.23  
10.93  
11.02  
11.04  
11.02  
11.1  
11.12  
11.18  
11.18  
11.12  
11.0657  
11.05  
11.11  
11.13  
11.18  
11.19  
11.24  
11.28  
11.49  
11.6  
11.55  
11.5501  
11.67  
11.77  
11.79  
11.84  
11.9  
11.827  
11.65

11.85  
11.95  
12.03  
11.95  
11.9  
11.85  
11.88  
12.01  
12.22  
12.22  
12.09  
11.9811  
11.9  
11.89  
11.8985  
11.8985  
11.95  
11.99  
11.85  
11.95  
11.94  
11.85  
11.9  
11.92  
11.93  
11.88  
11.88  
11.93  
11.86  
11.82  
11.93  
11.67  
11.51  
11.51  
11.5  
11.65  
11.81  
11.8  
11.98  
11.91  
11.92  
11.99  
12.05  
12.28  
12.58  
12.7001  
12.83  
13  
12.6  
12.6  
12.7  
12.63  
12.65  
12.46  
12.37  
12.4  
12.41  
12.44  
12.33  
12.29

7/31/09

FUND SNAPSHOT



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

Common Share Price	\$	12.29
Common Share Net Asset Value	\$	12.92
Premium/(Discount) to NAV		-4.88%
Market Yield		5.27%
Taxable-Equivalent Yield (1)		7.67%
Net Assets Applicable to Common Shares (\$000)	\$	57,755
Average Effective Maturity on Securities (Years)		16.66
Leverage-Adjusted Duration		10.14

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

	ON SHARE PRICE	ON NAV
1-Year	-2.61%	4.73%
5-Year	0.65%	3.32%
10-Year	2.13%	4.23%

INDUSTRIES  
(as a % of total investments)

Tax Obligation/Limited	22.7%
U.S. Guaranteed	16.6%
Health Care	15.0%
Utilities	14.5%
Water and Sewer	11.8%
Education and Civic Organizations	7.7%
Tax Obligation/General	7.5%
Other	4.2%

(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 31.3%. When comparing this Fund to investments that generate qualified dividend income, the Taxable-Equivalent Yield is lower.

Nuveen Investments 13

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

as of July 31, 2009

FUND SNAPSHOT

Common Share Price	\$	12.14
Common Share Net Asset Value	\$	12.66
Premium/(Discount) to NAV		-4.11%
Market Yield		5.19%
Taxable-Equivalent Yield (1)		7.55%
Net Assets Applicable to Common Shares (\$000)	\$	19,605
Average Effective Maturity on Securities (Years)		14.79
Leverage-Adjusted Duration		11.14

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

	ON SHARE PRICE	ON NAV
1-Year	-6.12%	0.58%
5-Year	0.71%	2.10%
Since Inception	3.12%	4.29%

INDUSTRIES

(as a % of total investments)

Tax Obligation/Limited	28.6%
Utilities	21.9%
Health Care	12.6%
Tax Obligation/General	8.5%
Water and Sewer	7.8%
U.S. Guaranteed	6.7%
Education and Civic Organizations	5.3%
Other	8.6%

Credit Quality (as a % of total investments)

[PIE CHART]

AAA/U.S.	
Guaranteed	20%
AA	27%
A	32%
BBB	14%

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

N/R

7%

2008-2009 Monthly Tax-Free Dividends Per Common Share

[BAR CHART]

Aug	\$	0.0525
Sep		0.0525
Oct		0.0525
Nov		0.0525
Dec		0.0525
Jan		0.0525
Feb		0.0525
Mar		0.0525
Apr		0.0525
May		0.0525
Jun		0.0525
Jul		0.0525

Common Share Price Performance -- Weekly Closing Price

[LINE CHART]

8/01/08	\$	13.55
		13.51
		13.5
		13.24
		13.0317
		13.06
		13.06
		12.92
		12.884
		12.8
		12.74
		12.7
		12.7
		12.83
		12.74
		12.7999
		12.7999
		12.99
		13.22
		13.19
		13.25
		13.25
		13.2
		13.2
		13.06
		13.1
		13.15
		13.15
		13.1
		13.1
		12.94
		12.91
		13.04
		12.7
		12.883
		12.9
		12.87
		12.6764
		12.8872

12.88  
12.6  
11.1  
11.4  
11.4  
11.4  
11.4  
10.96  
10  
9.9  
8.66  
7.95  
8.6  
9.05  
9.1  
9.1  
9.1  
9.5  
9.54  
9.51  
10  
9.75  
9.763  
9.69  
9.7  
9.59  
9.55  
9.96  
9.97  
10.3  
10.318  
10.25  
10.26  
10.2699  
10.02  
9.95  
10.86  
10.41  
10.1  
9.7  
9.35  
9.39  
9.39  
10.2  
9.92  
10.15  
10.15  
10.2  
10.2  
9.79  
9.55  
9.25  
9.25  
8.97  
8.7893  
8.7893  
8.6999  
8.61  
8.71  
8.83  
8.71  
8.86

8.96  
9.042  
8.89  
9.1399  
9.186  
9.1  
9.2999  
9.44  
9.8045  
11.0499  
10.2901  
10.49  
10.6493  
10.6  
10.6  
10.1135  
10.02  
10.16  
10.16  
10.1198  
10.3335  
10.29  
10.29  
10.25  
10.22  
10.21  
10.2465  
10.2465  
10.18  
10.18  
10.24  
10.3  
10.3299  
10.3475  
10.28  
10.19  
10.31  
10.31  
10.17  
10.1  
10.06  
9.95  
10.06  
10.05  
10  
10.0494  
10.04  
10.04  
9.92  
10  
10.0925  
10.03  
10.0265  
9.7  
9.67  
9.52  
9.53  
9.43  
9.47  
9.52  
9.67  
9.59

9.59  
10.01  
10.33  
10.16  
9.97  
9.97  
9.89  
10.05  
10.05  
10.42  
10.58  
10.59  
10.61  
11.14  
11.39  
11.1301  
11.19  
11.02  
10.84  
10.9  
10.84  
10.84  
10.86  
10.93  
10.93  
11.396  
11.27  
11.11  
10.9901  
11.33  
11.37  
11.37  
10.94  
11.18  
11  
11.2  
11.2  
10.95  
10.95  
10.96  
10.97  
10.98  
11.13  
11.3  
11.1845  
11.51  
11.37  
11.22  
11.3199  
11.3199  
11.51  
11.5199  
11.52  
11.52  
11.52  
11.45  
11.52  
11.52  
11.39  
11.27  
11.24  
11.38

11.38  
 11.27  
 11.27  
 11.32  
 11.32  
 11.3  
 11.3  
 11.19  
 11.19  
 11.19  
 11.39  
 11.35  
 11.35  
 11.52  
 11.78  
 11.7  
 11.69  
 11.55  
 11.5135  
 11.5135  
 11.5135  
 11.5135  
 11.5135  
 11.5135  
 11.5135  
 11.46  
 11.5375  
 12.16  
 12.1  
 12.1  
 12.02  
 12.14  
 12.14

7/31/09

(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 31.3%. When comparing this Fund to investments that generate qualified dividend income, the Taxable-Equivalent Yield is lower.

14 Nuveen Investments

NKR Performance OVERVIEW | Nuveen Arizona Dividend Advantage Municipal Fund 2 as of July 31, 2009

Credit Quality (as a % of total investments)

[PIE CHART]

AAA/U.S. Guaranteed	33%
AA	20%
A	19%
BBB	12%
N/R	16%

2008-2009 Monthly Tax-Free Dividends Per Common Share

[BAR CHART]

Aug \$ 0.0585

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

Sep	0.0585
Oct	0.0585
Nov	0.0585
Dec	0.0585
Jan	0.0585
Feb	0.0585
Mar	0.0585
Apr	0.0585
May	0.0585
Jun	0.0585
Jul	0.0585

Common Share Price Performance -- Weekly Closing Price

[LINE CHART]

8/01/08	\$	13.76
		13.65
		13.58
		13.48
		13.48
		13.36
		13.65
		13.65
		13.45
		13.5
		13.34
		13.2701
		13.34
		13.32
		13.3
		13.3
		13.363
		13.87
		14
		13.74
		13.74
		13.74
		13.65
		13.93
		13.92
		13.92
		13.55
		13.47
		13.5
		13.3699
		13.3
		13.2999
		13.14
		13.24
		13
		12.93
		12.53
		12.53
		12.5599
		12.07
		11.88
		11.561
		11.7
		11.7
		11.73
		12.1



11.85  
12  
11.86  
10.39  
8  
9  
11.16  
11.09  
11.3  
11.08  
11.44  
12.01  
13.2  
13  
13  
12.32  
12.01  
11.61  
11.238  
11.28  
11.77  
11.565  
11.565  
11.65  
11.65  
12.5  
11.73  
11.65  
11.32  
11.52  
11.42  
11.45  
11.65  
11.18  
10.48  
10.27  
10.24  
10.35  
10.3  
10.3  
10.21  
10.35  
10.39  
10.27  
9.89  
9.88  
10.01  
10.05  
10.42  
10.4  
10.12  
9.64  
9.79  
9.82  
10.21  
10.25  
10.03  
9.87  
10.03  
10.0032  
9.96  
10

10  
10.42  
10.53  
10.4  
10.64  
11.08  
11.3  
11.1  
11.14  
11.03  
11.17  
11.18  
11.18  
10.96  
11  
11  
11.02  
11.02  
11.02  
11.07  
11.07  
11.09  
11.16  
11.16  
11.2  
11.2  
11.1601  
11.23  
11.26  
11.189  
11.3  
11.19  
11.0701  
11.0701  
11.07  
11.07  
10.98  
11.088  
11.09  
11.273  
11.273  
10.73  
10.25  
10.3  
10.4999  
10.354  
10.35  
10.38  
10.27  
10.26  
10.37  
10.33  
10.4599  
10.42  
10.42  
10.4401  
10.4401  
10.65  
10.6901  
10.6901  
10.6901  
10.6901

10.85  
11.07  
11.12  
11.12  
11.5699  
11.97  
11.97  
11.82  
11.785  
11.57  
11.57  
11.5  
11.33  
11.4  
11.4  
11.6  
11.6  
11.6  
11.95  
12.02  
12.02  
12  
12.03  
11.8201  
11.76  
11.81  
11.81  
11.92  
11.9  
11.9002  
11.9002  
11.81  
11.824  
11.94  
12.0072  
12.05  
12.1416  
12.15  
12.2  
12.2  
12.2  
12.2  
12.2  
12.34  
12.34  
12.33  
12.5  
12.44  
12.5599  
12.5599  
12.5599  
12.34  
12.2  
12.19  
12.24  
12.05  
12.1001  
12.2  
12.2  
12.15  
12.23  
12.1501

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

12.0501  
 12.0501  
 12.05  
 12.17  
 12.18  
 12.4  
 12.4  
 12.4  
 12.4  
 12.83  
 13.121  
 13.2  
 13.1  
 13.05  
 13.05  
 13.05  
 12.69  
 12.58  
 12.48  
 12.4488  
 12.6401  
 12.75  
 12.48  
 12.48  
 12.52

7/31/09

FUND SNAPSHOT

Common Share Price	\$	12.52
Common Share Net Asset Value	\$	13.46
Premium/(Discount) to NAV		-6.98%
Market Yield		5.61%
Taxable-Equivalent Yield (1)		8.17%
Net Assets Applicable to Common Shares (\$000)	\$	32,829
Average Effective Maturity on Securities (Years)		14.20
Leverage-Adjusted Duration		8.89

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

	ON SHARE PRICE	ON NAV
1-Year	-4.99%	4.09%
5-Year	2.43%	3.43%
Since Inception	3.33%	4.91%

INDUSTRIES  
 (as a % of total investments)

Tax Obligation/Limited		30.2%
------------------------	--	-------

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

Health Care	16.9%
U.S. Guaranteed	15.2%
Tax Obligation/General	14.6%
Water and Sewer	8.3%
Other	14.8%

(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 31.3%. When comparing this Fund to investments that generate qualified dividend income, the Taxable-Equivalent Yield is lower.

Nuveen Investments 15

NXE Performance OVERVIEW | Nuveen Arizona Dividend Advantage Municipal Fund 3  
as of July 31, 2009

FUND SNAPSHOT

Common Share Price	\$	11.73
Common Share Net Asset Value	\$	12.76
Premium/(Discount) to NAV		-8.07%
Market Yield		5.58%
Taxable-Equivalent Yield (1)		8.12%
Net Assets Applicable to Common Shares (\$000)	\$	39,129
Average Effective Maturity on Securities (Years)		15.51
Leverage-Adjusted Duration		10.64

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

	ON SHARE PRICE	ON NAV
1-Year	-6.18%	3.08%
5-Year	2.82%	3.24%
Since Inception	1.78%	3.51%

INDUSTRIES  
(as a % of total investments)

Tax Obligation/Limited	21.0%
Health Care	21.0%

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

U.S. Guaranteed	15.9%
Education and Civic Organizations	10.6%
Transportation	10.1%
Utilities	8.1%
Water and Sewer	8.1%
Other	5.2%

Credit Quality (as a % of total investments)

[PIE CHART]

AAA/U.S. Guaranteed	23%
AA	21%
A	26%
BBB	17%
N/R	13%

2008-2009 Monthly Tax-Free Dividends Per Common Share

[BAR CHART]

Aug	\$	0.0545
Sep		0.0545
Oct		0.0545
Nov		0.0545
Dec		0.0545
Jan		0.0545
Feb		0.0545
Mar		0.0545
Apr		0.0545
May		0.0545
Jun		0.0545
Jul		0.0545

Common Share Price Performance -- Weekly Closing Price

[LINE CHART]

8/01/08	\$	13.08
		12.96
		12.93
		12.9
		12.72
		12.72
		12.72
		12.82
		12.76
		12.73
		12.64
		12.74
		12.64
		12.44
		12.5
		12.38

12.53  
12.88  
12.89  
12.8  
12.84  
12.84  
12.9799  
13.19  
13.11  
13.019  
13.11  
12.65  
12.65  
12.49  
12.4801  
12.44  
12.42  
12.35  
11.01  
11.4  
11.7  
11.8299  
11.52  
11.64  
11.5  
11.4  
11.15  
11.23  
11.03  
10.8  
10.364  
9.7699  
9.15  
8.8  
8.03  
9.65  
10.2968  
10.6  
9.6  
9.4  
10.11  
10.55  
11.235  
11.235  
11.13  
11.13  
10.4  
10.38  
10.09  
9.97  
10.04  
10.07  
10.122  
10.16  
10.205  
10.16  
10.3  
10.26  
10.309  
11.0981  
10.745  
10.35

10.25  
9.96  
9.61  
9.34  
9.1799  
9.175  
9.22  
9.22  
9.2  
9.24  
9.2007  
9.2  
9.24  
9.17  
9.04  
9.01  
8.6601  
8.63  
8.5  
8.67  
8.6685  
8.9  
9.33  
9.3  
9.2  
8.98  
9.3  
9.24  
9.27  
9.324  
9.44  
9.4109  
9.52  
9.53  
9.78  
10.2  
10.41  
10.3001  
10  
10.09  
10.2101  
10.2101  
10.27  
10.15  
10.19  
10.19  
10.1699  
10.1999  
10.25  
10.31  
10.31  
10.37  
10.4728  
10.4  
10.55  
10.531  
10.5155  
10.45  
10.5  
10.45  
10.45  
10.4



10.35  
10.23  
9.9999  
9.99  
10  
10.18  
10.17  
10.07  
10.07  
10.07  
9.97  
10.03  
9.94  
9.9982  
9.81  
9.78  
9.6782  
9.5  
9.51  
9.5599  
9.51  
9.67  
9.69  
9.69  
9.59  
9.61  
9.61  
9.6  
9.76  
9.7  
9.76  
9.713  
9.8699  
9.88  
9.93  
10.04  
10.1327  
10.131  
10.2  
10.29  
10.33  
10.32  
10.35  
10.33  
10.52  
10.54  
10.54  
10.64  
10.67  
10.6001  
10.5201  
10.53  
10.34  
10.68  
10.6299  
10.7  
10.6  
10.7  
10.89  
11.08  
10.97  
10.94

10.97  
 11.06  
 11.07  
 11.35  
 11.24  
 11.62  
 11.56  
 11.49  
 11.35  
 11.5  
 11.5  
 11.52  
 11.3975  
 11.52  
 11.4801  
 11.4  
 11.24  
 11.31  
 11.31  
 11.31  
 11.26  
 11.26  
 11.37  
 11.31  
 11  
 11.03  
 10.8  
 10.9  
 11.1  
 11.09  
 11.1  
 11.1219  
 11.07  
 11.16  
 11.19  
 11.18  
 11.18  
 11.2461  
 11.37  
 11.56  
 11.444  
 11.5001  
 11.45  
 11.49  
 11.62  
 11.5001  
 11.4  
 11.49  
 11.59  
 11.6154  
 11.87  
 11.81  
 11.7  
 11.79  
 11.73

7/31/09

- (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 31.3%. When comparing this Fund to investments that generate qualified dividend income, the Taxable-Equivalent Yield is lower.

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

16 Nuveen Investments

NTX Performance OVERVIEW | Nuveen Texas Quality Income Municipal Fund  
as of July 31, 2009

Credit Quality (as a % of total investments)

[PIE CHART]

AAA/U.S.	
Guaranteed	46%
AA	22%
A	15%
BBB	13%
BB or Lower	4%

2008-2009 Monthly Tax-Free Dividends Per Common Share (2)

[BAR CHART]

Aug	\$	0.057
Sep		0.058
Oct		0.058
Nov		0.058
Dec		0.058
Jan		0.058
Feb		0.058
Mar		0.058
Apr		0.058
May		0.062
Jun		0.062
Jul		0.062

Common Share Price Performance -- Weekly Closing Price

[LINE CHART]

8/01/08	\$	12.5
		12.58
		12.61
		12.54
		12.51
		12.8
		12.78
		12.78
		12.7001
		12.71
		12.74
		12.73
		12.648
		12.68
		12.76
		12.672
		12.7
		12.65
		12.66
		12.75
		12.77
		12.77
		12.8

12.77  
12.76  
12.8  
12.78  
12.7901  
12.78  
12.72  
12.6  
12.59  
12.89  
12.59  
11.99  
12.2  
12.11  
11.84  
11.84  
11.59  
11.37  
10.86  
11.15  
11.44  
11.59  
11.54  
11.16  
10.82  
10.12  
9.39  
8.43  
10.3299  
10.3  
9.99  
10.02  
10.2  
10.46  
11.03  
11.5  
12.83  
12.3799  
12.2  
12.05  
11.75  
11.5  
11.57  
11.72  
11.82  
11.8152  
11.61  
11.81  
11.8  
11.79  
11.46  
10.98  
10.8  
10.7  
10.6  
10.25  
10  
10.06  
10.45  
10.56  
10.28  
10.42

10.42  
10.51  
10.29  
11  
11  
11.5  
11.3  
11  
10.8  
10.89  
10.89  
10.39  
10.38  
10.42  
10.43  
10.26  
10.51  
10.4  
11.09  
11.45  
11.37  
11.36  
11.2575  
11.94  
12.01  
12.29  
12.22  
12.3  
12.5  
12.5  
12.47  
12.14  
12.15  
12.19  
12.3786  
12.3504  
12.22  
12.41  
12.4  
12.61  
12.52  
12.57  
12.6  
12.6  
12.56  
13.05  
12.96  
12.92  
12.92  
12.86  
12.85  
12.8  
12.96  
12.9501  
12.91  
12.92  
12.838  
12.41  
12.5  
12.81  
12.9  
13.01

13.118  
13.118  
13.17  
13.07  
12.96  
13.1  
13.05  
12.94  
13.02  
13  
12.81  
13.08  
12.958  
13.06  
12.91  
12.91  
13.07  
13.1  
12.94  
12.95  
13.08  
13.38  
13.05  
13.08  
13.25  
13.25  
13.2  
13.06  
13.06  
13.1  
13.4  
13.25  
13.18  
13.12  
13.1  
13.13  
13.34  
13.26  
13.22  
13.44  
13.36  
13.1  
13.1  
13.15  
13.16  
13.25  
13.36  
13.33  
13.38  
13.37  
13.42  
13.52  
13.57  
13.64  
13.75  
13.75  
13.74  
13.7352  
13.704  
13.73  
13.6696  
13.85

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

13.84  
 13.748  
 13.864  
 13.864  
 13.87  
 13.84  
 13.7  
 13.59  
 13.55  
 13.53  
 13.65  
 13.74  
 14  
 13.81  
 13.68  
 13.69  
 13.56  
 13.73  
 13.6001  
 13.6  
 13.75  
 14  
 14.1  
 14.1  
 14.11  
 14.223  
 14.0986  
 14.18  
 14.1  
 14.0288  
 13.95  
 14.42  
 14.49  
 14.36  
 14.3  
 14.31  
 14.45  
 14.26  
 14.3  
 14.35  
 14.35  
 14.35  
 14.212  
 14.17  
 14.6901  
 14.8  
 15.1  
 14.78

7/31/09

FUND SNAPSHOT

Common Share Price	\$	14.78
Common Share Net Asset Value	\$	13.84
Premium/(Discount) to NAV		6.79%
Market Yield		5.03%
Taxable-Equivalent Yield (1)		6.99%
Net Assets Applicable to Common Shares (\$000)	\$	131,513

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

Average Effective Maturity on Securities (Years)	15.58
Leverage-Adjusted Duration	8.95

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

	ON SHARE PRICE	ON NAV
1-Year	25.98%	4.80%
5-Year	6.09%	3.75%
10-Year	6.09%	5.17%

INDUSTRIES  
(as a % of total investments)

Tax Obligation/General	31.8%
U.S. Guaranteed	12.6%
Education and Civic Organizations	10.6%
Health Care	10.0%
Water and Sewer	8.4%
Utilities	7.5%
Tax Obligation/Limited	5.8%
Other	13.3%

- (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 capital gains and net ordinary income distributions in December 2008 of \$0.0511 per share.

Nuveen Investments 17

NAZ NFZ NKR | Shareholder MEETING REPORT

The annual meeting of shareholders was held in the offices of Nuveen Investments on November 18, 2008; at this meeting the shareholders were asked to vote on the election of Board Members, the elimination of Fundamental Investment Policies and the approval of new Fundamental Investment Policies. The meeting was subsequently adjourned to January 13, 2009, and additionally adjourned to March 17, 2009.



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

	NAZ		NFZ	
	Common and Preferred shares voting together as a class	Preferred shares voting together as a class	Common and Preferred shares voting together as a class	Pre Preferred shares voting together as a class
-----				
TO APPROVE THE ELIMINATION OF THE FUND'S FUNDAMENTAL POLICY RELATING TO INVESTMENTS IN MUNICIPAL SECURITIES AND BELOW INVESTMENT GRADE SECURITIES.				
For	2,087,727	251	714,731	
Against	187,895	39	47,565	
Abstain	60,519	8	10,147	
Broker Non-Votes	460,650	421	208,785	
Total	2,796,791	719	981,228	
=====				
TO APPROVE THE NEW FUNDAMENTAL POLICY RELATING TO INVESTMENTS IN MUNICIPAL SECURITIES FOR THE FUND.				
For	2,121,019	251	713,064	
Against	161,571	39	51,416	
Abstain	53,551	8	7,963	
Broker Non-Votes	460,650	421	208,785	
Total	2,796,791	719	981,228	
=====				
TO APPROVE THE ELIMINATION OF THE FUNDAMENTAL POLICY PROHIBITING INVESTMENT IN OTHER INVESTMENT COMPANIES.				
For	2,108,749	249	--	
Against	168,830	39	--	
Abstain	58,562	10	--	
Broker Non-Votes	460,650	421	--	
Total	2,796,791	719	--	
=====				
TO APPROVE THE ELIMINATION OF THE FUNDAMENTAL POLICY RELATING TO DERIVATIVES AND SHORT SALES.				
For	2,089,706	221	--	
Against	176,141	67	--	
Abstain	70,294	10	--	
Broker Non-Votes	460,650	421	--	
Total	2,796,791	719	--	
=====				
TO APPROVE THE ELIMINATION OF THE FUNDAMENTAL POLICY RELATING TO COMMODITIES.				
For	2,096,155	249	--	
Against	178,482	39	--	
Abstain	61,504	10	--	
Broker Non-Votes	460,650	421	--	
Total	2,796,791	719	--	
=====				
TO APPROVE THE NEW FUNDAMENTAL POLICY RELATING TO COMMODITIES.				

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

For	2,085,825	249	--
Against	188,332	39	--
Abstain	61,984	10	--
Broker Non-Votes	460,650	421	--
Total	2,796,791	719	--

18 NUVEEN INVESTMENTS

	NAZ		NFZ	
	Common and Preferred shares voting together as a class	Preferred shares voting together as a class	Common and Preferred shares voting together as a class	Preferred shares voting together as a class
APPROVAL OF THE BOARD MEMBERS WAS REACHED AS FOLLOWS:				
John P. Amboian				
For	2,709,807	--	933,610	--
Withhold	86,968	--	47,617	--
Total	2,796,775	--	981,227	--
Robert P. Bremner				
For	2,710,807	--	--	--
Withhold	85,968	--	--	--
Total	2,796,775	--	--	--
Jack B. Evans				
For	2,710,807	--	--	--
Withhold	85,968	--	--	--
Total	2,796,775	--	--	--
William C. Hunter				
For	--	591	--	343
Withhold	--	112	--	1
Total	--	703	--	344
David J. Kundert				
For	2,710,807	--	933,610	--
Withhold	85,968	--	47,617	--
Total	2,796,775	--	981,227	--
William J. Schneider				
For	--	591	--	343
Withhold	--	112	--	1
Total	--	703	--	344

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

Judith M. Stockdale				
For	2,699,552	--	--	--
Withhold	97,223	--	--	--
Total	2,796,775	--	--	--
Carole E. Stone				
For	2,709,807	--	--	--
Withhold	86,968	--	--	--
Total	2,796,775	--	--	--
Terence J. Toth				
For	2,690,045	--	930,010	--
Withhold	106,730	--	51,217	--
Total	2,796,775	--	981,227	--

NUVEEN INVESTMENTS 19

NXE NTX | Shareholder MEETING REPORT (continued)

	NXE		NT
	Common and Preferred shares voting together as a class	Preferred shares voting together as a class	Common and Preferred shares voting together as a class
TO APPROVE THE ELIMINATION OF THE FUND'S FUNDAMENTAL POLICY RELATING TO INVESTMENTS IN MUNICIPAL SECURITIES AND BELOW INVESTMENT GRADE SECURITIES.			
For	1,387,878	115	4,378,634
Against	92,693	--	278,903
Abstain	38,459	7	118,307
Broker Non-Votes	449,552	693	1,553,578
Total	1,968,582	815	6,329,422
TO APPROVE THE NEW FUNDAMENTAL POLICY RELATING TO INVESTMENTS IN MUNICIPAL SECURITIES FOR THE FUND.			
For	1,392,477	74	4,390,702
Against	98,029	40	264,735
Abstain	28,524	8	120,407
Broker Non-Votes	449,552	693	1,553,578
Total	1,968,582	815	6,329,422
TO APPROVE THE ELIMINATION OF THE FUNDAMENTAL POLICY PROHIBITING INVESTMENT IN OTHER INVESTMENT COMPANIES.			
For	--	--	4,333,782

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

Against	--	--	327,536
Abstain	--	--	114,526
Broker Non-Votes	--	--	1,553,578
-----			
Total	--	--	6,329,422
=====			
TO APPROVE THE ELIMINATION OF THE FUNDAMENTAL POLICY RELATING TO DERIVATIVES AND SHORT SALES.			
For	--	--	4,340,274
Against	--	--	318,856
Abstain	--	--	116,714
Broker Non-Votes	--	--	1,553,578
-----			
Total	--	--	6,329,422
=====			
TO APPROVE THE ELIMINATION OF THE FUNDAMENTAL POLICY RELATING TO COMMODITIES.			
For	--	--	4,326,551
Against	--	--	313,627
Abstain	--	--	135,666
Broker Non-Votes	--	--	1,553,578
-----			
Total	--	--	6,329,422
=====			
TO APPROVE THE NEW FUNDAMENTAL POLICY RELATING TO COMMODITIES.			
For	--	--	4,321,940
Against	--	--	308,260
Abstain	--	--	145,644
Broker Non-Votes	--	--	1,553,578
-----			
Total	--	--	6,329,422
=====			

20 NUVEEN INVESTMENTS

	NXE		NTX	
	Common and Preferred shares voting together as a class	Preferred shares voting together as a class	Common and Preferred shares voting together as a class	Preferred shares voting together as a class
-----				
APPROVAL OF THE BOARD MEMBER WAS REACHED AS FOLLOWS:				
John P. Amboian				
For	1,846,305	--	6,083,316	--
Withhold	122,275	--	241,813	--
-----				
Total	1,968,580	--	6,325,129	--
=====				
Robert P. Bremner				
For	--	--	--	--
Withhold	--	--	--	--

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

Total	--	--	--	--
Jack B. Evans				
For	--	--	--	--
Withhold	--	--	--	--
Total	--	--	--	--
William C. Hunter				
For	--	733	--	1,256
Withhold	--	80	--	43
Total	--	813	--	1,299
David J. Kundert				
For	1,843,305	--	6,086,924	--
Withhold	125,275	--	238,205	--
Total	1,968,580	--	6,325,129	--
William J. Schneider				
For	--	733	--	1,256
Withhold	--	80	--	43
Total	--	813	--	1,299
Judith M. Stockdale				
For	--	--	--	--
Withhold	--	--	--	--
Total	--	--	--	--
Carole E. Stone				
For	--	--	--	--
Withhold	--	--	--	--
Total	--	--	--	--
Terence J. Toth				
For	1,839,749	--	6,082,016	--
Withhold	128,831	--	243,113	--
Total	1,968,580	--	6,325,129	--

NUVEEN INVESTMENTS 21

Report of  
INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

THE BOARD OF DIRECTORS/TRUSTEES AND SHAREHOLDERS  
NUVEEN ARIZONA PREMIUM INCOME MUNICIPAL FUND, INC.  
NUVEEN ARIZONA DIVIDEND ADVANTAGE MUNICIPAL FUND  
NUVEEN ARIZONA DIVIDEND ADVANTAGE MUNICIPAL FUND 2  
NUVEEN ARIZONA DIVIDEND ADVANTAGE MUNICIPAL FUND 3  
NUVEEN TEXAS QUALITY INCOME MUNICIPAL FUND

We have audited the accompanying statements of assets and liabilities, including

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

the portfolios of investments, of Nuveen Arizona Premium Income Municipal Fund, Inc., Nuveen Arizona Dividend Advantage Municipal Fund, Nuveen Arizona Dividend Advantage Municipal Fund 2, Nuveen Arizona Dividend Advantage Municipal Fund 3 and Nuveen Texas Quality Income Municipal Fund (the "Funds"), as of July 31, 2009, and the related statements of operations for the year then ended, the statements of changes in net assets for each of the two years in the period then ended and the financial highlights for each of the five years in the period then ended. These financial statements and financial highlights are the responsibility of the Funds' management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. We were not engaged to perform an audit of the Funds' internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Funds' internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and financial highlights, assessing the accounting principles used and significant estimates made by management and evaluating the overall financial statement presentation. Our procedures included confirmation of securities owned as of July 31, 2009, by correspondence with the custodian. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial positions of Nuveen Arizona Premium Income Municipal Fund, Inc., Nuveen Arizona Dividend Advantage Municipal Fund, Nuveen Arizona Dividend Advantage Municipal Fund 2, Nuveen Arizona Dividend Advantage Municipal Fund 3 and Nuveen Texas Quality Income Municipal Fund at July 31, 2009, the results of their operations for the year then ended, the changes in their net assets for each of the two years in the period then ended and the financial highlights for each of the five years in the period then ended in conformity with US generally accepted accounting principles.

/s/ERNST & YOUNG LLP

Chicago, Illinois  
September 25, 2009

22 Nuveen Investments

NAZ | Nuveen Arizona Premium Income Municipal Fund, Inc.  
| Portfolio of INVESTMENTS July 31, 2009

PRINCIPAL AMOUNT (000)	DESCRIPTION (1)	OPTIONAL CA PROVISIONS
\$ 790	CONSUMER STAPLES - 1.1% (0.8% OF TOTAL INVESTMENTS) 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-CSR

---

	EDUCATION AND CIVIC ORGANIZATIONS - 11.4% (7.7% OF TOTAL INVESTMENTS)	
2,500	Arizona Higher Education Loan Authority, Student Loan Revenue Bonds, Series 2007B, Auction Rate Coupon, 0.735%, 11/01/41 (4)	9/09 at 100.
1,000	Arizona State University, System Revenue Bonds, Series 2002, 5.000%, 7/01/25 - FGIC Insured	7/12 at 100.
1,455	Arizona State University, System Revenue Bonds, Series 2005: 5.000%, 7/01/20 - AMBAC Insured	7/15 at 100.
750	5.000%, 7/01/21 - AMBAC Insured	7/15 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.

---

7,205 Total Education and Civic Organizations

---

	HEALTH CARE - 22.0% (15.0% OF TOTAL INVESTMENTS)	
1,430	Arizona Health Facilities Authority, Hospital Revenue Bonds, Banner Health Systems, Series 2007A, 5.000%, 1/01/25	1/17 at 100.
885	Arizona Health Facilities Authority, Hospital Revenue Bonds, Banner Health Systems, Series 2007B, 1.210%, 1/02/37	1/17 at 100.
3,470	Arizona Health Facilities Authority, Hospital Revenue Bonds, Banner Health Systems, Series 2008D, 5.500%, 1/01/38	1/18 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.
1,110	Glendale Industrial Development Authority, Arizona, Revenue Bonds, John C. Lincoln Health Network, Series 2007, 5.000%, 12/01/42	12/17 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.
2,800	Maricopa County Industrial Development Authority, Arizona, Health Facility Revenue Bonds, Catholic Healthcare West, Series 2007A, 5.250%, 7/01/32	7/17 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.
1,005	Winslow Industrial Development Authority, Arizona, Hospital Revenue Bonds, Winslow Memorial Hospital, Series 1998, 5.500%, 6/01/22	12/09 at 100.

---

14,040 Total Health Care

---

	HOUSING/SINGLE FAMILY - 5.1% (3.4% OF TOTAL INVESTMENTS)	
760	Phoenix and Pima County Industrial Development Authority, Arizona, Single Family Mortgage Revenue Bonds, Series 2007-4, 5.800%, 12/01/39 (Alternative Minimum Tax)	7/17 at 103.
2,115	Tucson and Pima County Industrial Development Authority, Arizona, Joint Single Family Mortgage Revenue Bonds, Series 2007B, 5.350%, 6/01/47 (Alternative Minimum Tax)	6/17 at 101.

---

2,875 Total Housing/Single Family

---

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

Nuveen Investments 23

NAZ | Nuveen Arizona Premium Income Municipal Fund, Inc. (continued)  
 | Portfolio of INVESTMENTS July 31, 2009

PRINCIPAL AMOUNT (000)	DESCRIPTION (1)	OPTIONAL CA PROVISIONS
<hr/>		
\$ 1,265	TAX OBLIGATION/GENERAL - 11.0% (7.5% OF TOTAL INVESTMENTS) Gila County Unified School District 10 Payson, Arizona, School Improvement Bonds, Project 2006, Series 2008B, 3.000%, 7/01/28	7/18 at 100.
1,200	Maricopa County Unified School District 95 Queen Creek, Arizona, General Obligation Bonds, Series 2008, 5.000%, 7/01/27 - FSA Insured	7/18 at 100.
3,530	Pinal County Unified School District 1, Florence, Arizona, General Obligation Bonds, Series 2008C, 5.250%, 7/01/28	7/18 at 100.
330	Puerto Rico, General Obligation and Public Improvement Bonds, Series 2001A, 5.375%, 7/01/28	7/11 at 100.
<hr/>		
6,325	Total Tax Obligation/General	
<hr/>		
384	TAX OBLIGATION/LIMITED - 33.3% (22.7% OF TOTAL INVESTMENTS) Estrella Mountain Ranch Community Facilities District, Goodyear, Arizona, Special Assessment Lien Bonds, Series 2001A, 7.875%, 7/01/25	7/10 at 102.
3,000	Glendale Western Loop 101 Public Facilities Corporation, Arizona, Third Lien Excise Tax Revenue Bonds, Series 2008B, 6.250%, 7/01/38	1/14 at 100.
1,280	Greater Arizona Development Authority, Infrastructure Revenue Bonds, Series 2006-1, 5.000%, 8/01/22 - MBIA Insured	8/16 at 100.
740	Greater Arizona Development Authority, Infrastructure Revenue Bonds, Series 2006A, 5.000%, 8/01/23 - 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.
1,574	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.
1,140	Pinetop Fire District of Navajo County, Arizona, Certificates of Participation, Series 2008, 7.750%, 6/15/29	6/16 at 102.
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.
265	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	7/15 at 100.



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

	Facilities Excise Tax Revenue Bonds, Series 2005, 5.000%, 7/01/25 - SYNCORA GTY Insured	
645	Vistancia Community Facilities District, Arizona, Restricted General Obligation Bonds, Series 2005, 5.750%, 7/15/24	7/15 at 100.

---

19,213 Total Tax Obligation/Limited

---

24 Nuveen Investments

PRINCIPAL AMOUNT (000)	DESCRIPTION (1)	OPTIONAL CA PROVISIONS
\$	U.S. GUARANTEED - 24.4% (16.6% OF TOTAL INVESTMENTS) (5)	
800	Arizona Health Facilities Authority, Hospital Revenue Bonds, Catholic Healthcare West, Series 1999A, 6.625%, 7/01/20 (Pre-refunded 7/01/10)	7/10 at 101.
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.
1,250	Glendale Industrial Development Authority, Arizona, Revenue Bonds, Midwestern University, Series 2001A, 5.875%, 5/15/31 (Pre-refunded 5/15/11)	5/11 at 101.
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. Ca
385	Maricopa County, Arizona, Hospital Revenue Bonds, Sun Health Corporation, Series 2005, 5.000%, 4/01/16 (Pre-refunded 4/01/15)	4/15 at 100.
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.
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.
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.
735	Puerto Rico Public Buildings Authority, Guaranteed Government Facilities Revenue Refunding Bonds, Series 2002D, 5.125%, 7/01/24 (Pre-refunded 7/01/12)	7/12 at 100.
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.
12,920	Total U.S. Guaranteed	
	UTILITIES - 21.2% (14.5% 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. Ca
215	Pima County Industrial Development Authority, Arizona, Lease Obligation Revenue Refunding Bonds, Tucson	1/10 at 100.

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

	Electric Power Company, Series 1988A, 7.250%, 7/15/10 - FSA Insured	
2,170	Puerto Rico Electric Power Authority, Power Revenue Bonds, Series 2005RR, 5.000%, 7/01/27 - SYNCORA GTY 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.
715	Salt River Project Agricultural Improvement and Power District, Arizona, Electric System Revenue Bonds, Tender Option Bond Trust 09-9W, 16.926%, 1/01/38 (IF)	1/18 at 100.
1,000	Salt River Project Agricultural Improvement and Power District, Arizona, Electric System Revenue Refunding Bonds, Series 2002A, 5.125%, 1/01/27	1/12 at 101.
	Salt Verde Financial Corporation, Arizona, Senior Gas Revenue Bonds, Series 2007:	
4,500	5.500%, 12/01/29	No Opt. Ca
3,500	5.000%, 12/01/37	No Opt. Ca
<hr/>		
13,630	Total Utilities	

Nuveen Investments 25

NAZ | Nuveen Arizona Premium Income Municipal Fund, Inc. (continued)  
| Portfolio of INVESTMENTS July 31, 2009

PRINCIPAL AMOUNT (000)	DESCRIPTION (1)	OPTIONAL CA PROVISIONS (
	WATER AND SEWER - 17.4% (11.8% OF TOTAL INVESTMENTS)	
\$ 1,005	Cottonwood, Arizona, Senior Lien Water System Revenue Bonds, Municipal Property Corporation, Series 2004, 5.000%, 7/01/24 - SYNCORA GTY 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.
1,000	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.
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. Ca
	Surprise Municipal Property Corporation, Arizona, Wastewater System Revenue Bonds, Series 2007:	
600	4.700%, 4/01/22	4/14 at 100.
695	4.900%, 4/01/32	4/17 at 100.
<hr/>		
10,150	Total Water and Sewer	
<hr/>		
\$ 87,148	Total Investments (cost \$84,429,473) - 146.9%	

```

=====
Other Assets Less Liabilities - 1.4%
-----
Preferred Shares, at Liquidation Value - (48.3)% (6)
-----
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 (not covered by the report of independent registered public accounting firm): 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 (not covered by the report of independent registered public accounting firm): Using the higher of Standard & Poor's Group ("Standard & Poor's") or Moody's Investor Service, Inc. ("Moody's") rating. Ratings below BBB by Standard & Poor's or Baa by Moody's are considered to be below investment grade.
- (4) Investment valued at fair value methods determined in good faith by, or at the discretion of, the Board of Directors. For SFAS No. 157 disclosure purposes, investment categorized as Level 3. See Notes to Financial Statements, Footnote 2 - Fair Value Measurements for more information.
- (5) 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.
- (6) Preferred Shares, at Liquidation Value as a percentage of Total Investments is 32.8%.

N/R Not rated.

(ETM) Escrowed to maturity.

(IF) Inverse floating rate investment.

See accompanying notes to financial statements.

26 Nuveen Investments

NFZ | Nuveen Arizona Dividend Advantage Municipal Fund  
 | Portfolio of INVESTMENTS July 31, 2009

PRINCIPAL AMOUNT (000)	DESCRIPTION (1)	OPTIONAL CA PROVISIONS
	EDUCATION AND CIVIC ORGANIZATIONS - 7.8% (5.3% OF TOTAL INVESTMENTS)	
\$ 280	Arizona Higher Education Loan Authority, Student Loan Revenue Bonds, Series 2007B, Adjustable Rate, 0.735%,	9/09 at 100.

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

	11/01/41 (4)		
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		8/09 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.
<hr/>			
1,885	Total Education and Civic Organizations		
<hr/>			
	HEALTH CARE - 18.6% (12.6% OF TOTAL INVESTMENTS)		
565	Arizona Health Facilities Authority, Hospital Revenue Bonds, Banner Health Systems, Series 2007A, 5.000%, 1/01/25		1/17 at 100.
325	Arizona Health Facilities Authority, Hospital Revenue Bonds, Banner Health Systems, Series 2007B, 1.210%, 1/02/37		1/17 at 100.
720	Arizona Health Facilities Authority, Hospital Revenue Bonds, Banner Health Systems, Series 2008D, 5.500%, 1/01/38		1/18 at 100.
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.
415	Glendale Industrial Development Authority, Arizona, Revenue Bonds, John C. Lincoln Health Network, Series 2007, 5.000%, 12/01/42		12/17 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.
1,025	Maricopa County Industrial Development Authority, Arizona, Health Facility Revenue Bonds, Catholic Healthcare West, Series 2007A, 5.250%, 7/01/32		7/17 at 100.
<hr/>			
4,060	Total Health Care		
<hr/>			
	HOUSING/MULTIFAMILY - 3.7% (2.5% 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		8/09 at 102.
<hr/>			
	HOUSING/SINGLE FAMILY - 3.9% (2.6% OF TOTAL INVESTMENTS)		
760	Tucson and Pima County Industrial Development Authority, Arizona, Joint Single Family Mortgage Revenue Bonds, Series 2007B, 5.350%, 6/01/47 (Alternative Minimum Tax)		6/17 at 101.
<hr/>			

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

NFZ | Nuveen Arizona Dividend Advantage Municipal Fund (continued)  
 | Portfolio of INVESTMENTS July 31, 2009

PRINCIPAL AMOUNT (000)	DESCRIPTION (1)	OPTIONAL CA PROVISIONS
	TAX OBLIGATION/GENERAL - 12.5% (8.5% 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.
1,340	Yuma & La Paz Counties Community College District, Arizona, General Obligation Bonds, Series 2006, 5.000%, 7/01/21 - MBIA Insured	7/16 at 100.
2,340	Total Tax Obligation/General	
	TAX OBLIGATION/LIMITED - 42.1% (28.6% OF TOTAL INVESTMENTS)	
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.
91	Centerra Community Facilities District, Goodyear, Arizona, General Obligation Bonds, Series 2005, 5.500%, 7/15/29	7/15 at 100.
208	Estrella Mountain Ranch Community Facilities District, Arizona, Special Assessment Bonds, Montecito Assessment District, Series 2007, 5.700%, 7/01/27	1/17 at 100.
149	Estrella Mountain Ranch Community Facilities District, Goodyear, Arizona, Special Assessment Lien Bonds, Series 2001A, 7.875%, 7/01/25	7/10 at 102.
1,000	Greater Arizona Development Authority, Infrastructure Revenue Bonds, Series 2006-1, 5.000%, 8/01/22 - MBIA Insured	8/16 at 100.
275	Greater Arizona Development Authority, Infrastructure Revenue Bonds, Series 2006A, 5.000%, 8/01/23 - 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.
550	Marana, Arizona, Tangerine Farms Road Improvement District Revenue Bonds, Series 2006, 4.600%, 1/01/26	7/16 at 100.
150	Marley Park Community Facilities District, City of Surprise, Arizona, Limited Tax General Obligation Bonds, Series 2007, 6.100%, 7/15/32	7/17 at 100.
255	Merrill Ranch Community Facilities District 1, Florence, Arizona, General Obligation Bonds, Series 2008A, 7.400%, 7/15/33	7/18 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.
225	Palm Valley Community Facility District 3, Goodyear, Arizona, Limited Tax General Obligation Bonds, Series 2007, 5.800%, 7/15/32	7/17 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, 5.250%, 9/15/16 - AMBAC Insured	3/12 at 100.
680	Pinal County Industrial Development Authority, Arizona, Correctional Facilities Contract Revenue Bonds,	No Opt. Ca

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

	Florence West Prison LLC, Series 2002A, 5.000%, 10/01/18 - ACA Insured	
600	San Luis Civic Improvement Corporation, Arizona, Municipal Facilities Excise Tax Revenue Bonds, Series 2005, 5.000%, 7/01/25 - SYNCORA GTY Insured	7/15 at 100.
350	Tartesso West Community Facility District, Buckeye, Arizona, Limited Tax General Obligation Bonds, Series 2007, 5.900%, 7/15/32	7/17 at 100.
500	Vistancia Community Facilities District, Arizona, Restricted General Obligation Bonds, Series 2005, 5.750%, 7/15/24	7/15 at 100.
354	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.

---

9,342 Total Tax Obligation/Limited

---

28 Nuveen Investments

PRINCIPAL AMOUNT (000)	DESCRIPTION (1)	OPTIONAL CA PROVISIONS
\$	U.S. GUARANTEED - 10.0% (6.7% OF TOTAL INVESTMENTS) (5)	
365	Arizona Health Facilities Authority, Hospital Revenue Bonds, Catholic Healthcare West, Series 1999A, 6.625%, 7/01/20 (Pre-refunded 7/01/10)	7/10 at 101.
240	Maricopa County Union High School District 210 Phoenix, Arizona, General Obligation Bonds, Series 2006C, 5.000%, 7/01/24 (Pre-refunded 7/01/16) - MBIA Insured	7/16 at 100.
140	Maricopa County, Arizona, Hospital Revenue Bonds, Sun Health Corporation, Series 2005, 5.000%, 4/01/16 (Pre-refunded 4/01/15)	4/15 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.

---

1,745 Total U.S. Guaranteed

---

	UTILITIES - 29.8% (20.2% 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. Ca
1,000	Mesa, Arizona, Utility System Revenue Refunding Bonds, Series 2002, 5.250%, 7/01/17 - FGIC Insured	No Opt. Ca
1,000	Puerto Rico Electric Power Authority, Power Revenue Bonds, Series 2005RR, 5.000%, 7/01/26 - SYNCORA GTY 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.
560	Salt River Project Agricultural Improvement and Power District, Arizona, Electric System Revenue Bonds, Tender	1/18 at 100.

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

		Option Bond Trust 09-9W, 16.926%, 1/01/38 (IF)	
235		Salt River Project Agricultural Improvement and Power District, Arizona, Electric System Revenue Refunding Bonds, Series 1997A, 5.000%, 1/01/20	1/10 at 100.
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.
-----			
5,495		Total Utilities	
-----			
		WATER AND SEWER - 11.5% (7.8% 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.
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.
		Surprise Municipal Property Corporation, Arizona, Wastewater System Revenue Bonds, Series 2007:	
225		4.700%, 4/01/22	4/14 at 100.
260		4.900%, 4/01/32	4/17 at 100.
175		Yuma County Industrial Development Authority, Arizona, Exempt Revenue Bonds, Far West Water & Sewer Inc. Refunding, Series 2007A, 6.375%, 12/01/37 (Alternative Minimum Tax)	12/17 at 100.
-----			
2,385		Total Water and Sewer	
-----			
\$	29,012	Total Long-Term Investments (cost \$29,050,291) - 139.9%	
=====			

Nuveen Investments 29

NFZ | Nuveen Arizona Dividend Advantage Municipal Fund (continued)  
| Portfolio of INVESTMENTS July 31, 2009

PRINCIPAL AMOUNT (000)	DESCRIPTION (1)	OPTIONAL CA PROVISIONS
	SHORT-TERM INVESTMENTS - 7.7% ( 5.2% OF TOTAL INVESTMENTS)	
	CONSUMER DISCRETION - 5.1% (3.5% OF TOTAL INVESTMENTS)	
\$	1,000 Ak-Chin Indian Community, Arizona, Revenue Bonds, Variable Rate Demand Obligations, 0.400%, 4/01/23 (6)	10/09 at 100.
-----		
	UTILITIES - 2.6% (1.7% OF TOTAL INVESTMENTS)	
500	The Industrial Development Authority of the County of Apache, Arizona, Industrial Development Revenue Bonds, 1985 Series A, Tucson Electric Power Company Springville Project, Variable Rate Demand Obligations, 0.420%, 12/01/20 (6)	10/09 at 100.
-----		
\$	1,500 Total Short-Term Investments (cost \$1,500,000)	
=====		
	Total Investments (cost \$30,550,291) - 147.6%	

-----  
 Other Assets Less Liabilities - 6.5%  
 -----  
 Preferred Shares, at Liquidation Value - (54.1)% (7)  
 -----  
 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 (not covered by the report of independent registered public accounting firm): 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 (not covered by the report of independent registered public accounting firm): Using the higher of Standard & Poor's Group ("Standard & Poor's") or Moody's Investor Service, Inc. ("Moody's") rating. Ratings below BBB by Standard & Poor's or Baa by Moody's are considered to be below investment grade.
  - (4) Investment valued at fair value using methods determined in good faith by, or at the discretion of, the Board of Trustees. For SFAS No. 157 disclosure purposes, investment categorized as Level 3. See Notes to Financial Statements, Footnote 2 - Fair Value Measurements for more information.
  - (5) 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.
  - (6) Investment has a maturity of more than one year, but has variable rate and demand features which qualify it as a short-term investment. The rate disclosed is that in effect at the end of the reporting period. This rate changes periodically based on market conditions or a specified market index.
  - (7) Preferred Shares, at Liquidation Value as a percentage of Total Investments is 36.6%.
- N/R Not rated.
- (IF) Inverse floating rate investment.

See accompanying notes to financial statements.

30 Nuveen Investments

NKR | Nuveen Arizona Dividend Advantage Municipal Fund 2  
 | Portfolio of INVESTMENTS July 31, 2009

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

-----



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

		EDUCATION AND CIVIC ORGANIZATIONS - 6.1% (4.3% OF TOTAL INVESTMENTS)	
\$	1,130	Arizona Higher Education Loan Authority, Student Loan Revenue Bonds, Series 2007B, Adjustable Rate, 0.735%, 11/01/41 (4)	9/09 at 100.
	460	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.
	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	8/09 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:	
	65	5.500%, 6/01/18 - AMBAC Insured	6/12 at 100.
	40	5.125%, 6/01/22 - AMBAC Insured	6/12 at 100.
	2,495	Total Education and Civic Organizations	
		HEALTH CARE - 24.3% (16.9% OF TOTAL INVESTMENTS)	
	845	Arizona Health Facilities Authority, Hospital Revenue Bonds, Banner Health Systems, Series 2007A, 5.000%, 1/01/25	1/17 at 100.
	520	Arizona Health Facilities Authority, Hospital Revenue Bonds, Banner Health Systems, Series 2007B, 1.210%, 1/02/37	1/17 at 100.
	1,150	Arizona Health Facilities Authority, Hospital Revenue Bonds, Banner Health Systems, Series 2008D, 5.500%, 1/01/38	1/18 at 100.
	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.
	655	Glendale Industrial Development Authority, Arizona, Revenue Bonds, John C. Lincoln Health Network, Series 2007, 5.000%, 12/01/42	12/17 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.
	1,650	Maricopa County Industrial Development Authority, Arizona, Health Facility Revenue Bonds, Catholic Healthcare West, Series 2007A, 5.250%, 7/01/32	7/17 at 100.
	500	Maricopa County Industrial Development Authority, Arizona, Hospital Revenue Bonds, Mayo Clinic Hospital, Series 1998, 5.250%, 11/15/37	11/09 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.
	8,695	Total Health Care	
		HOUSING/MULTIFAMILY - 3.2% (2.2% OF TOTAL INVESTMENTS)	
	1,000	Maricopa County Industrial Development Authority, Arizona, GNMA Collateralized Multifamily Housing Revenue Refunding Bonds, Pine Ridge, Cambridge Court, Cove on	10/11 at 105.

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

44th and Fountain Place Apartments, Series 2001A-1,  
6.000%, 10/20/31

---

	HOUSING/SINGLE FAMILY - 3.8% (2.7% OF TOTAL INVESTMENTS)	
1,245	Tucson and Pima County Industrial Development Authority, Arizona, Joint Single Family Mortgage Revenue Bonds, Series 2007B, 5.350%, 6/01/47 (Alternative Minimum Tax)	6/17 at 101.

Nuveen Investments 31

NKR | Nuveen Arizona Dividend Advantage Municipal Fund 2 (continued)  
| Portfolio of INVESTMENTS July 31, 2009

PRINCIPAL AMOUNT (000)	DESCRIPTION (1)	OPTIONAL CA PROVISIONS
<hr/>		
	TAX OBLIGATION/GENERAL - 21.1% (14.6% OF TOTAL INVESTMENTS)	
\$ 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. Ca
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. Ca
1,405	Mesa, Arizona, General Obligation Bonds, Series 2002, 5.375%, 7/01/15 - FGIC Insured	No Opt. Ca
	Phoenix, Arizona, Various Purpose General Obligation Bonds, Series 2002B:	
1,700	5.000%, 7/01/22	7/12 at 100.
500	5.000%, 7/01/27	7/12 at 100.
510	Scottsdale, Arizona, General Obligation Bonds, Series 2002, 5.000%, 7/01/24	7/11 at 100.
<hr/>		
6,280	Total Tax Obligation/General	
<hr/>		
	TAX OBLIGATION/LIMITED - 43.5% (30.2% 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.
128	Centerra Community Facilities District, Goodyear, Arizona, General Obligation Bonds, Series 2005, 5.500%, 7/15/29	7/15 at 100.
340	Estrella Mountain Ranch Community Facilities District, Arizona, Special Assessment Bonds, Montecito Assessment District, Series 2007, 5.800%, 7/01/32	1/17 at 100.
236	Estrella Mountain Ranch Community Facilities District, Goodyear, Arizona, Special Assessment Lien Bonds, Series 2001A, 7.875%, 7/01/25	7/10 at 102.
921	Marana, Arizona, Tangerine Farms Road Improvement District Revenue Bonds, Series 2006, 4.600%, 1/01/26	7/16 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.
240	Marley Park Community Facilities District, City of	7/17 at 100.

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

	Surprise, Arizona, Limited Tax General Obligation Bonds, Series 2007, 6.100%, 7/15/32	
415	Merrill Ranch Community Facilities District 1, Florence, Arizona, General Obligation Bonds, Series 2008A, 7.400%, 7/15/33	7/18 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.
350	Palm Valley Community Facility District 3, Goodyear, Arizona, Limited Tax General Obligation Bonds, Series 2007, 5.800%, 7/15/32	7/17 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. Ca
270	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 - SYNCORA GTY Insured	7/15 at 100.
555	Tartesso West Community Facility District, Buckeye, Arizona, Limited Tax General Obligation Bonds, Series 2007, 5.900%, 7/15/32	7/17 at 100.
750	Vistancia Community Facilities District, Arizona, Restricted General Obligation Bonds, Series 2005, 5.750%, 7/15/24	7/15 at 100.

32 Nuveen Investments

PRINCIPAL AMOUNT (000)	DESCRIPTION (1)	OPTIONAL CA PROVISIONS
-----		
	TAX OBLIGATION/LIMITED (continued)	
\$ 559	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.
-----		
15,689	Total Tax Obligation/Limited	
-----		
	TRANSPORTATION - 4.3% (3.0% OF TOTAL INVESTMENTS)	
470	Phoenix Civic Improvement Corporation, Arizona, Senior Lien Airport Revenue Bonds, Series 1998A, 5.000%, 7/01/25 - FSA Insured	1/10 at 100.

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

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.
<hr/>		
1,470	Total Transportation	
<hr/>		
	U.S. GUARANTEED - 21.8% (15.2% OF TOTAL INVESTMENTS) (5)	
400	Arizona Health Facilities Authority, Hospital Revenue Bonds, Catholic Healthcare West, Series 1999A, 6.625%, 7/01/20 (Pre-refunded 7/01/10)	7/10 at 101.
735	Arizona Health Facilities Authority, Hospital System Revenue Bonds, Phoenix Children's Hospital, Series 2002A, 6.250%, 2/15/21 (Pre-refunded 2/15/12)	2/12 at 101.
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.
375	Maricopa County Union High School District 210 Phoenix, Arizona, General Obligation Bonds, Series 2006C, 5.000%, 7/01/24 (Pre-refunded 7/01/16) - MBIA Insured	7/16 at 100.
225	Maricopa County, Arizona, Hospital Revenue Bonds, Sun Health Corporation, Series 2005, 5.000%, 4/01/16 (Pre-refunded 4/01/15)	4/15 at 100.
730	Puerto Rico Public Buildings Authority, Guaranteed Government Facilities Revenue Refunding Bonds, Series 2002D, 5.125%, 7/01/24 (Pre-refunded 7/01/12)	7/12 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.
	University of Arizona, Certificates of Participation, Series 2002A:	
685	5.500%, 6/01/18 (Pre-refunded 6/01/12) - AMBAC Insured	6/12 at 100.
460	5.125%, 6/01/22 (Pre-refunded 6/01/12) - AMBAC Insured	6/12 at 100.
<hr/>		
6,415	Total U.S. Guaranteed	
<hr/>		
	UTILITIES - 3.7% (2.6% OF TOTAL INVESTMENTS)	
450	Salt River Project Agricultural Improvement and Power District, Arizona, Electric System Revenue Bonds, Tender Option Bond Trust 09-9W, 16.926%, 1/01/38 (IF)	1/18 at 100.
1,000	Salt Verde Financial Corporation, Arizona, Senior Gas Revenue Bonds, Series 2007, 5.000%, 12/01/37	No Opt. Ca
<hr/>		
1,450	Total Utilities	
<hr/>		
	WATER AND SEWER - 12.0% (8.3% 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)	12/09 at 100.
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.

NKR | Nuveen Arizona Dividend Advantage Municipal Fund 2 (continued)  
 | Portfolio of INVESTMENTS July 31, 2009

PRINCIPAL AMOUNT (000)	DESCRIPTION (1)	OPTIONAL CA PROVISIONS
-----		
	WATER AND SEWER (continued)	
\$ 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. Ca
350	Surprise Municipal Property Corporation, Arizona, Wastewater System Revenue Bonds, Series 2007: 4.700%, 4/01/22	4/14 at 100.
410	4.900%, 4/01/32	4/17 at 100.
1,000	Tucson, Arizona, Water System Revenue Refunding Bonds, Series 2002, 5.500%, 7/01/18 - FGIC Insured	7/12 at 102.
275	Yuma County Industrial Development Authority, Arizona, Exempt Revenue Bonds, Far West Water & Sewer Inc. Refunding, Series 2007A, 6.375%, 12/01/37 (Alternative Minimum Tax)	12/17 at 100.
-----		
3,895	Total Water and Sewer	
-----		
\$ 48,634	Total Investments (cost \$48,467,496) - 143.8%	
=====		
	Other Assets Less Liabilities - 6.8%	
-----		
	Preferred Shares, at Liquidation Value - (50.6)% (6)	
-----		
	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 (not covered by the report of independent registered public accounting firm): 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 (not covered by the report of independent registered public accounting firm): Using the higher of Standard & Poor's Group ("Standard & Poor's") or Moody's Investor Service, Inc. ("Moody's") rating. Ratings below BBB by Standard & Poor's or Baa by Moody's are considered to be below investment grade.
- (4) Investment valued at fair value using methods determined in good faith by, or at the discretion of, the Board of Trustees. For SFAS No. 157 disclosure purposes, investment categorized as Level 3. See Notes to Financial Statements, Footnote 2 - Fair Value Measurements for more information.
- (5) Backed by an escrow or trust containing sufficient U.S. Government or U.S.

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

Government agency securities which ensure the timely payment of principal and interest. Such investments are normally considered to be equivalent to AAA rated securities.

(6) Preferred Shares, at Liquidation Value as a percentage of Total Investments is 35.2%.

N/R Not rated.

(IF) Inverse floating rate investment.

See accompanying notes to financial statements.

34 Nuveen Investments

NXE | Nuveen Arizona Dividend Advantage Municipal Fund 3  
| Portfolio of INVESTMENTS July 31, 2009

PRINCIPAL AMOUNT (000)	DESCRIPTION (1)	OPTIONAL CA PROVISIONS
\$ 500	CONSUMER STAPLES - 1.1% (0.8% OF TOTAL INVESTMENTS) Puerto Rico, The Children's Trust Fund, Tobacco Settlement Asset-Backed Refunding Bonds, Series 2002, 5.375%, 5/15/33	5/12 at 100.
690	EDUCATION AND CIVIC ORGANIZATIONS - 15.3% (10.6% OF TOTAL INVESTMENTS) Arizona Higher Education Loan Authority, Student Loan Revenue Bonds, Series 2007B, Adjustable Rate, 0.735%, 11/01/41 (4)	9/09 at 100.
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.
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.
6,175	Total Education and Civic Organizations	
1,015	HEALTH CARE - 30.3% (21.0% OF TOTAL INVESTMENTS) Arizona Health Facilities Authority, Hospital Revenue Bonds, Banner Health Systems, Series 2007A, 5.000%, 1/01/25	1/17 at 100.
620	Arizona Health Facilities Authority, Hospital Revenue Bonds, Banner Health Systems, Series 2007B, 1.210%, 1/02/37	1/17 at 100.
2,390	Arizona Health Facilities Authority, Hospital Revenue	1/18 at 100.

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

	Bonds, Banner Health Systems, Series 2008D, 5.500%, 1/01/38	
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.
785	Glendale Industrial Development Authority, Arizona, Revenue Bonds, John C. Lincoln Health Network, Series 2007, 5.000%, 12/01/42	12/17 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.
1,985	Maricopa County Industrial Development Authority, Arizona, Health Facility Revenue Bonds, Catholic Healthcare West, Series 2007A, 5.250%, 7/01/32	7/17 at 100.
2,000	Maricopa County Industrial Development Authority, Arizona, Hospital Revenue Bonds, Mayo Clinic Hospital, Series 1998, 5.250%, 11/15/37	11/09 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.
-----		
12,720	Total Health Care	
-----		
	HOUSING/SINGLE FAMILY - 3.8% (2.6% OF TOTAL INVESTMENTS)	
1,495	Tucson and Pima County Industrial Development Authority, Arizona, Joint Single Family Mortgage Revenue Bonds, Series 2007B, 5.350%, 6/01/47 (Alternative Minimum Tax)	6/17 at 101.

Nuveen Investments 35

NXE | Nuveen Arizona Dividend Advantage Municipal Fund 3 (continued)  
| Portfolio of INVESTMENTS July 31, 2009

PRINCIPAL AMOUNT (000)	DESCRIPTION (1)	OPTIONAL CA PROVISIONS
-----		
\$ 1,000	TAX OBLIGATION/GENERAL - 2.6% (1.8% OF TOTAL INVESTMENTS) Pinal County Unified School District 1, Florence, Arizona, General Obligation Bonds, Series 2008C, 5.250%, 7/01/28	7/18 at 100.
-----		
146	TAX OBLIGATION/LIMITED - 30.3% (21.0% OF TOTAL INVESTMENTS) 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.
252	Estrella Mountain Ranch Community Facilities District, Arizona, Special Assessment Bonds, Montecito Assessment District, Series 2007: 5.700%, 7/01/27	1/17 at 100.
155	5.800%, 7/01/32	1/17 at 100.

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

277	Estrella Mountain Ranch Community Facilities District, Goodyear, Arizona, Special Assessment Lien Bonds, Series 2001A, 7.875%, 7/01/25	7/10 at 102.
525	Greater Arizona Development Authority, Infrastructure Revenue Bonds, Series 2006A, 5.000%, 8/01/23 - MBIA Insured	8/16 at 100.
1,076	Marana, Arizona, Tangerine Farms Road Improvement District Revenue Bonds, Series 2006, 4.600%, 1/01/26	7/16 at 100.
290	Marley Park Community Facilities District, City of Surprise, Arizona, Limited Tax General Obligation Bonds, Series 2007, 6.100%, 7/15/32	7/17 at 100.
490	Merrill Ranch Community Facilities District 1, Florence, Arizona, General Obligation Bonds, Series 2008A, 7.400%, 7/15/33	7/18 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.
425	Palm Valley Community Facility District 3, Goodyear, Arizona, Limited Tax General Obligation Bonds, Series 2007, 5.800%, 7/15/32	7/17 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.
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. Ca
1,130	San Luis Civic Improvement Corporation, Arizona, Municipal Facilities Excise Tax Revenue Bonds, Series 2005, 5.000%, 7/01/25 - SYNCORA GTY Insured	7/15 at 100.
665	Tartesso West Community Facility District, Buckeye, Arizona, Limited Tax General Obligation Bonds, Series 2007, 5.900%, 7/15/32	7/17 at 100.
1,250	Vistancia Community Facilities District, Arizona, Restricted General Obligation Bonds, Series 2005, 5.750%, 7/15/24	7/15 at 100.
663	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.
-----		
14,069	Total Tax Obligation/Limited	
-----		

36 Nuveen Investments

PRINCIPAL AMOUNT (000)	DESCRIPTION (1)	OPTIONAL CA PROVISIONS
-----		
	TRANSPORTATION - 14.6% (10.1% 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.



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

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.
<hr/>		
5,750	Total Transportation	
<hr/>		
	U.S. GUARANTEED - 23.0% (15.9% OF TOTAL INVESTMENTS) (5)	
300	Arizona Health Facilities Authority, Hospital Revenue Bonds, Catholic Healthcare West, Series 1999A, 6.625%, 7/01/20 (Pre-refunded 7/01/10)	7/10 at 101.
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.
	Arizona Health Facilities Authority, Hospital System Revenue Bonds, Phoenix Children's Hospital, Series 1999A:	
350	6.125%, 11/15/22 (Pre-refunded 11/15/09)	11/09 at 100.
520	6.250%, 11/15/29 (Pre-refunded 11/15/09)	11/09 at 100.
1,575	Maricopa County Union High School District 210, Phoenix, Arizona, General Obligation Bonds, Series 2004A, 5.000%, 7/01/20 (Pre-refunded 7/01/14) - FSA Insured	7/14 at 100.
270	Maricopa County, Arizona, Hospital Revenue Bonds, Sun Health Corporation, Series 2005, 5.000%, 4/01/16 (Pre-refunded 4/01/15)	4/15 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.
<hr/>		
8,035	Total U.S. Guaranteed	
<hr/>		
	UTILITIES - 11.7% (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.
1,660	Puerto Rico Electric Power Authority, Power Revenue Bonds, Series 2005RR, 5.000%, 7/01/26 - SYNCORA GTY Insured	7/15 at 100.
270	Salt River Project Agricultural Improvement and Power District, Arizona, Electric System Revenue Bonds, Series 2002B, 5.000%, 1/01/22	1/13 at 100.
775	Salt River Project Agricultural Improvement and Power District, Arizona, Electric System Revenue Bonds, Tender Option Bond Trust 09-9W, 16.926%, 1/01/38 (IF)	1/18 at 100.
1,165	Salt Verde Financial Corporation, Arizona, Senior Gas Revenue Bonds, Series 2007, 5.000%, 12/01/37	No Opt. Ca
<hr/>		
5,120	Total Utilities	
<hr/>		
	WATER AND SEWER - 11.7% (8.1% 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.
1,000	Phoenix Civic Improvement Corporation, Arizona, Junior Lien Wastewater System Revenue Refunding Bonds, Series 2001, 5.125%, 7/01/21 - FGIC Insured	7/11 at 100.

NXE | Nuveen Arizona Dividend Advantage Municipal Fund 3 (continued)  
 | Portfolio of INVESTMENTS July 31, 2009

PRINCIPAL AMOUNT (000)	DESCRIPTION (1)	OPTIONAL CA PROVISIONS
-----		
	WATER AND SEWER (continued)	
\$ 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.
	Surprise Municipal Property Corporation, Arizona, Wastewater System Revenue Bonds, Series 2007:	
425	4.700%, 4/01/22	4/14 at 100.
490	4.900%, 4/01/32	4/17 at 100.
330	Yuma County Industrial Development Authority, Arizona, Exempt Revenue Bonds, Far West Water & Sewer Inc. Refunding, Series 2007A, 6.375%, 12/01/37 (Alternative Minimum Tax)	12/17 at 100.
-----		
4,650	Total Water and Sewer	
-----		
\$ 59,514	Total Investments (cost \$59,413,492) - 144.4%	
=====		
	Other Assets Less Liabilities - 2.6%	
-----		
	Preferred Shares, at Liquidation Value - (47.0)% (6)	
-----		
	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 (not covered by the report of independent registered public accounting firm): 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 (not covered by the report of independent registered public accounting firm): Using the higher of Standard & Poor's Group ("Standard & Poor's") or Moody's Investor Service, Inc. ("Moody's") rating. Ratings below BBB by Standard & Poor's or Baa by Moody's are considered to be below investment grade.
- (4) Investment valued at fair value using methods determined in good faith by, or at the discretion of, the Board of Trustees. For SFAS No. 157 disclosure purposes, investment categorized as Level 3. See Notes to Financial Statements, Footnote 2 - Fair Value Measurements for more information.
- (5) 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

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

AAA rated securities.

(6) Preferred Shares, at Liquidation Value as a percentage of Total Investments is 32.6%.

N/R Not rated.

(IF) Inverse floating rate investment.

See accompanying notes to financial statements.

38 Nuveen Investments

NTX | Nuveen Texas Quality Income Municipal Fund  
| Portfolio of INVESTMENTS July 31, 2009

PRINCIPAL AMOUNT (000)	DESCRIPTION (1)	OPTIONAL CA PROVISIONS
\$ 2,360	CONSUMER STAPLES - 1.6% (1.1% OF TOTAL INVESTMENTS) Puerto Rico, The Children's Trust Fund, Tobacco Settlement Asset-Backed Refunding Bonds, Series 2002, 5.375%, 5/15/33	5/12 at 100.
1,000	EDUCATION AND CIVIC ORGANIZATIONS - 15.7% (10.6% OF TOTAL INVESTMENTS) Central Texas Higher Education Authority Inc., Texas, Student Loan Revenue Bonds, Auction Rate Coupon, 0.858%, 12/01/37 - (Alternative Minimum Tax) (4)	9/09 at 100.
1,170	Red River Education Finance Corporation, Texas, Revenue Bonds, Hockaday School, Series 2005: 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.
1,710	Texas Public Finance Authority, Revenue Bonds, Texas Southern University Financing System, Series 2003: 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.
21,075	Total Education and Civic Organizations	
3,000	ENERGY - 1.9% (1.3% OF TOTAL INVESTMENTS) Gulf Coast Waste Disposal Authority, Texas, Waste Disposal Revenue Bonds, Valero Energy Corporation Project, Series 1998, 5.600%, 4/01/32 (Alternative Minimum Tax)	10/09 at 101.

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

PRINCIPAL AMOUNT (000)	DESCRIPTION (1)	OPTIONAL PROVISIONS
HEALTH CARE - 14.8% (10.0% OF TOTAL INVESTMENTS)		
3,270	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	9/09 at 100.
	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.
2,650	Midland County Hospital District, Texas, Hospital Revenue Bonds, Series 1992, 0.000%, 6/01/11	No Opt. Ca
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.
	Richardson Hospital Authority, Texas, Revenue Bonds, Richardson Regional Medical Center, Series 2004:	
2,000	5.875%, 12/01/24	12/13 at 100.
1,000	6.000%, 12/01/34	12/13 at 100.
2,500	Tarrant County Cultural & Educational Facilities Financing Corporation, Texas, Revenue Bonds, Tarrant County Health Resources, Series 2007B, 5.000%, 11/15/42	11/17 at 100.

Nuveen Investments 39

NTX | Nuveen Texas Quality Income Municipal Fund (continued)  
 | Portfolio of INVESTMENTS July 31, 2009

PRINCIPAL AMOUNT (000)	DESCRIPTION (1)	OPTIONAL PROVISIONS
HEALTH CARE (continued)		
\$ 2,000	Tarrant County Cultural Education Facilities Finance Corporation, Texas, Revenue Refunding Bonds, Christus Health, Series 2008, 6.500%, 7/01/37	1/19 at 100.
700	Tyler Health Facilities Development Corporation, Texas, Hospital Revenue Bonds, Mother Frances Hospital Regional Healthcare Center, Series 2007B, 5.000%, 7/01/37	7/17 at 100.
2,000	Tyler Health Facilities Development Corporation, Texas, Hospital Revenue Bonds, Mother Frances Hospital Regional Healthcare Center, Series 2007, 5.000%, 7/01/33	7/17 at 100.
21,700	Total Health Care	
HOUSING/MULTIFAMILY - 1.3% (0.9% 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.
2,750	Total Housing/Multifamily	

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

	HOUSING/SINGLE FAMILY - 3.5% (2.3% OF TOTAL INVESTMENTS)		
1,684	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.
20	Galveston Property Finance Authority Inc., Texas, Single Family Mortgage Revenue Bonds, Series 1991A, 8.500%, 9/01/11		9/09 at 100.
2,780	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.
-----			
4,484	Total Housing/Single Family		
-----			
	LONG TERM CARE - 0.9% (0.6% OF TOTAL INVESTMENTS)		
	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.
-----			
1,600	Total Long Term Care		
-----			
	MATERIALS - 4.4% (3.0% 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)		10/09 at 100.
-----			
6,000	Total Materials		
-----			
	TAX OBLIGATION/GENERAL - 47.2% (31.8% 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.
2,000	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.
325	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.
1,750	El Paso County, Texas, Certificates of Obligation, Series 2001, 5.000%, 2/15/21 - FSA Insured		No Opt. Ca

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

PRINCIPAL AMOUNT (000)	DESCRIPTION (1)	OPTIONAL CA PROVISIONS
-----		
	TAX OBLIGATION/GENERAL (continued)	
	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.
	8,500	Grand Prairie Independent School District, Dallas County, Texas, General Obligation Bonds, Capital Appreciation Refunding Series 2009, 0.000%, 8/15/39
		8/18 at 22.
		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.
	100	Judson Independent School District, Bexar County, Texas, General Obligation Refunding Bonds, Series 2002, 5.250%, 2/01/21
		2/11 at 100.
	4,900	Leander Independent School District, Williamson and Travis Counties, Texas, General Obligation Bonds, Series 2006, 0.000%, 8/15/45
		8/14 at 17.
	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, 5.000%, 8/15/23
		8/15 at 100.
	5,515	Midlothian Independent School District, Ellis County, Texas, General Obligation Bonds, Series 2005, 5.000%, 2/15/34
		2/15 at 100.
	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.
	2,000	Plano Independent School District, Collin County, Texas, General Obligation Bonds, Series 2008, 5.250%, 2/15/34
		2/18 at 100.
		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.
	1,250	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 State, General Obligation Bonds, Transportation Commission Mobility Fund, Series 2006-A, 5.000%, 4/01/33 (UB)
		4/17 at 100.
	1,000	Texas State, General Obligation Bonds, Transportation Commission Mobility Fund, Series 2008-A, 5.000%, 4/01/30 (UB)
		4/18 at 100.
	1,110	Texas State, General Obligation Bonds, Water Utility, 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.
	3,025	Victoria Independent School District, Victoria County,
		2/17 at 100.

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

	Texas, General Obligation Bonds, Series 2007, 5.000%, 2/15/32	
	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.
	White Settlement Independent School District, Tarrant County, Texas, General Obligation Bonds, Series 2006:	
1,500	0.000%, 8/15/43	8/15 at 23.
1,500	0.000%, 8/15/44	8/15 at 21.
425	0.000%, 8/15/45	8/15 at 20.
-----		
78,320	Total Tax Obligation/General	
-----		

Nuveen Investments 41

NTX | Nuveen Texas Quality Income Municipal Fund (continued)  
| Portfolio of INVESTMENTS July 31, 2009

PRINCIPAL AMOUNT (000)	DESCRIPTION (1)	OPTIONAL CA PROVISIONS
	TAX OBLIGATION/LIMITED - 8.5% (5.8% OF TOTAL INVESTMENTS)	
\$ 7,940	Dallas Area Rapid Transit, Texas, Senior Lien Sales Tax Revenue Bonds, Series 2007, 5.000%, 12/01/36 - AMBAC Insured	12/16 at 100.
	Harris County-Houston Sports Authority, Texas, Junior Lien Revenue Bonds, Series 2001H:	
1,720	0.000%, 11/15/34 - MBIA Insured	11/31 at 83.
930	0.000%, 11/15/36 - MBIA Insured	11/31 at 73.
3,265	0.000%, 11/15/38 - MBIA Insured	11/31 at 64.
	Harris County-Houston Sports Authority, Texas, Senior Lien Revenue Bonds, Series 2001G:	
2,250	5.250%, 11/15/22 - MBIA Insured	11/11 at 100.
2,475	0.000%, 11/15/41 - MBIA Insured	11/31 at 53.
1,470	Houston, Texas, Hotel Occupancy Tax and Special Revenue Bonds, Convention and Entertainment Project, Series 2001B, 0.000%, 9/01/32 - AMBAC Insured	No Opt. Ca
-----		
20,050	Total Tax Obligation/Limited	
-----		

	TRANSPORTATION - 6.1% (4.1% 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.

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

2,500	North Texas Thruway Authority, First Tier System Revenue Refunding Bonds, Capital Appreciation Series 2008, 0.000%, 1/01/36 - AGC Insured	No Opt. Ca
600	North Texas Thruway Authority, Second Tier System Revenue Refunding Bonds, Series 2008, 5.750%, 1/01/38	1/18 at 100.
<hr/>		
11,960	Total Transportation	
<hr/>		
U.S. GUARANTEED - 18.8% (12.6% OF TOTAL INVESTMENTS) (5)		
Coppell Independent School District, Dallas County, Texas, Unlimited Tax School Building and Refunding Bonds, Series 1992:		
2,585	0.000%, 8/15/14 (Pre-refunded 8/15/09) - MBIA Insured	8/09 at 75.
295	0.000%, 8/15/14 (Pre-refunded 8/15/09) - MBIA Insured	8/09 at 75.
950	Copperas Cove, Texas, Certificates of Obligation, Series 2003, 5.000%, 8/15/23 (Pre-refunded 8/15/12) - MBIA Insured	8/12 at 100.
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.
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	Judson Independent School District, Bexar County, Texas, General Obligation Refunding Bonds, Series 2002, 5.250%, 2/01/21 (Pre-refunded 2/01/11)	2/11 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. Ca
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.

42 Nuveen Investments

PRINCIPAL AMOUNT (000)	DESCRIPTION (1)	OPTIONAL CA PROVISIONS
<hr/>		
\$	U.S. GUARANTEED (5) (continued)	
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) (6)	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.
1,440	South Texas Community College District, General Obligation Bonds, Series 2002, 5.500%, 8/15/17 (Pre-refunded 8/15/12) - AMBAC Insured	8/12 at 100.
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.



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

1,000	Tyler Health Facilities Development Corporation, Texas, Hospital Revenue Bonds, Mother Frances Hospital Regional Healthcare Center, Series 2001, 6.000%, 7/01/31 (Pre-refunded 7/01/12)	7/12 at 100.
<hr/>		
22,845	Total U.S. Guaranteed	
<hr/>		
	UTILITIES - 11.2% (7.5% 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	10/09 at 101.
200	Brazos River Authority, Texas, Revenue Refunding Bonds, Houston Industries Inc., Series 1998C, 5.125%, 5/01/19 - AMBAC Insured	11/09 at 101.
5,000	Brownsville, Texas, Utility System Priority Revenue Bonds, Series 2005A, 5.000%, 9/01/27 - AMBAC Insured	9/15 at 100.
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.
2,000	Lower Colorado River Authority, Texas, Revenue Bonds, Series 2008, 5.750%, 5/15/37	5/15 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)	11/09 at 101.
1,000	Matagorda County Navigation District Number One, Texas, Pollution Control Revenue Refunding Bonds, Central Power and Light Company Project, Series 2009A, 6.300%, 11/01/29	7/19 at 102.
<hr/>		
16,160	Total Utilities	
<hr/>		
	WATER AND SEWER - 12.5% (8.4% 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.
1,000	El Paso, Texas, Water and Sewer Revenue Bonds, Refunding Series 2008C, 5.375%, 3/01/29	3/18 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.

Nuveen Investments 43

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

PRINCIPAL AMOUNT (000)	DESCRIPTION (1)	OPTIONAL CA PROVISIONS
	WATER AND SEWER (continued)	
\$ 1,500	Texas Water Development Board, Senior Lien State Revolving Fund Revenue Bonds, Series 1999A, 5.500%, 7/15/21	1/10 at 100.
15,735	Total Water and Sewer	
\$ 228,039	Total Investments (cost \$198,560,908) - 148.4%	
	Floating Rate Obligations - (3.0)%	
	Other Assets Less Liabilities - 4.1%	
	Preferred Shares, at Liquidation Value - (49.5)% (7)	
	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 (not covered by the report of independent registered public accounting firm): 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 (not covered by the report of independent registered public accounting firm): Using the higher of Standard & Poor's Group ("Standard & Poor's") or Moody's Investor Service, Inc. ("Moody's") rating. Ratings below BBB by Standard & Poor's or Baa by Moody's are considered to be below investment grade.
- (4) Investment valued at fair value using methods determined in good faith by, or at the discretion of, the Board of Trustees. For SFAS No. 157 disclosure purposes, investment categorized as Level 3. See Notes to Financial Statements, Footnote 2 - Fair Value Measurements for more information.
- (5) 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.
- (6) The issuer has received a formal adverse determination from the Internal Revenue Service (the "IRS") regarding the tax-exempt status of the bond's 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.
- (7) Preferred Shares, at Liquidation Value as a percentage of Total Investments is 33.3%.
- N/R Not rated.

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

(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 Notes to Financial Statements, Footnote 1 - Inverse Floating Rate Securities for more information.

See accompanying notes to financial statements.

44 Nuveen Investments

| Statement of  
| ASSETS & LIABILITIES  
July 31, 2009

	ARIZONA PREMIUM INCOME (NAZ)	ARIZONA DIVIDEND ADVANTAGE (NFZ)	ARIZONA DIVIDEND ADVANTAGE 2 (NKR)
-----			
ASSETS			
Investments, at value (cost \$84,429,473, \$30,550,291, \$48,467,496, \$59, 413,492 and \$198,560,908, respectively)	\$ 84,856,846	\$ 28,932,241	\$ 47,212,494
Cash	442,954	1,124,167	2,008,183
Receivables:			
Interest	577,074	249,211	404,049
Investments sold	40,000	--	--
Other assets	18,391	9,383	12,996
-----			
Total assets	85,935,265	30,315,002	49,637,722
-----			
LIABILITIES			
Cash overdraft	--	--	--
Floating Rate Obligations	--	--	--
Payables:			
Common share dividends	223,538	78,862	138,770
Preferred share dividends	442	505	528
Accrued expenses:			
Management fees	47,942	13,945	21,315
Other	33,612	16,900	22,755
-----			
Total liabilities	305,534	110,212	183,368
-----			
Preferred shares, at liquidation value	27,875,000	10,600,000	16,625,000
-----			
Net assets applicable to Common shares	\$ 57,754,731	\$ 19,604,790	\$ 32,829,354
=====			
Common shares outstanding	4,469,154	1,548,020	2,439,551
=====			
Net asset value per Common share outstanding (net assets applicable to Common shares, divided by Common shares outstanding)	\$ 12.92	\$ 12.66	\$ 13.46
=====			
NET ASSETS APPLICABLE TO COMMON SHARES CONSIST OF:			

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

Common shares, \$.01 par value per share	\$ 44,692	\$ 15,480	\$ 24,396
Paid-in surplus	62,155,941	21,910,007	34,577,972
Undistributed (Over-distribution of) net investment income	492,363	75,318	154,645
Accumulated net realized gain (loss) from investments and derivative transactions	(5,365,638)	(777,965)	(672,657)
Net unrealized appreciation (depreciation) of investments	427,373	(1,618,050)	(1,255,002)
Net assets applicable to Common shares	\$ 57,754,731	\$ 19,604,790	\$ 32,829,354
Authorized shares:			
Common	200,000,000	Unlimited	Unlimited
Preferred	1,000,000	Unlimited	Unlimited

See accompanying notes to financial statements.

Nuveen Investments 45

| Statement of  
| OPERATIONS  
Year Ended July 31, 2009

	ARIZONA PREMIUM INCOME (NAZ)	ARIZONA DIVIDEND ADVANTAGE (NFZ)	ARIZONA DIVIDEND ADVANTAGE 2 (NKR)
INVESTMENT INCOME	\$ 4,534,969	\$ 1,542,804	\$ 2,601,919
EXPENSES			
Management fees	545,915	194,796	320,230
Preferred shares - auction fees	67,677	25,708	41,194
Preferred shares - dividend disbursing agent fees	10,000	10,000	10,000
Shareholders' servicing agent fees and expenses	3,394	469	452
Interest expense on floating rate obligations	--	--	--
Custodian's fees and expenses	22,026	11,790	16,388
Directors'/Trustees' fees and expenses	2,253	684	1,172
Professional fees	16,523	9,911	11,141
Shareholders' reports - printing and mailing expenses	24,314	12,100	16,188
Stock exchange listing fees	9,211	219	344
Investor relations expense	6,770	2,552	4,015
Other expenses	17,544	15,264	15,974
Total expenses before custodian fee credit and expense reimbursement	725,627	283,493	437,098
Custodian fee credit	(3,330)	(2,805)	(3,631)
Expense reimbursement	--	(37,826)	(90,613)
Net expenses	722,297	242,862	342,854
Net investment income	3,812,672	1,299,942	2,259,065

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

REALIZED AND UNREALIZED GAIN (LOSS)			
Net realized gain (loss) from:			
Investments	(2,710,445)	(429,021)	(349,393)
Futures contracts	--	--	--
Change in net unrealized appreciation (depreciation) of:			
Investments	1,955,974	(604,752)	(337,136)
Futures contracts	--	--	--
-----			
Net realized and unrealized gain (loss)	(754,471)	(1,033,773)	(686,529)
-----			
DISTRIBUTIONS TO PREFERRED SHAREHOLDERS			
From net investment income	(565,487)	(220,718)	(349,919)
From accumulated net realized gains	--	--	--
-----			
Decrease in net assets applicable to Common shares from distributions to Preferred Shareholders			
	(565,487)	(220,718)	(349,919)
-----			
Net increase (decrease) in net assets applicable to Common shares from operations	\$ 2,492,714	\$ 45,451	\$ 1,222,617
=====			

See accompanying notes to financial statements.

46 Nuveen Investments

| Statement of  
| CHANGES in NET ASSETS

	ARIZONA PREMIUM INCOME (NAZ)		ARIZONA DIVIDEND ADVANTAGE	
	YEAR ENDED	YEAR ENDED	YEAR ENDED	YEAR ENDED
	7/31/09	7/31/08	7/31/09	7/31/08
-----				
OPERATIONS				
Net investment income	\$ 3,812,672	\$ 3,939,586	\$ 1,299,942	\$ 1,412,617
Net realized gain (loss) from:				
Investments	(2,710,445)	(695,247)	(429,021)	(2,834,713)
Futures contracts	--	(46,730)	--	(1,100,000)
Change in net unrealized appreciation (depreciation) of:				
Investments	1,955,974	(3,907,909)	(604,752)	(1,546,685)
Futures contracts	--	--	--	--
Distributions to Preferred Shareholders:				
From net investment income	(565,487)	(992,215)	(220,718)	(3,018,112)
From accumulated net realized gains	--	--	--	--
-----				
Net increase (decrease) in net assets applicable to Common shares from operations	2,492,714	(1,702,515)	45,451	(8,044,900)
-----				
DISTRIBUTIONS TO COMMON SHAREHOLDERS				
From net investment income	(2,846,851)	(2,734,545)	(976,248)	(9,147,644)

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

From accumulated net realized gains	--	--	--	(
Decrease in net assets applicable to Common shares from distributions to Common Shareholders	2,846,851)	(2,734,545)	(976,248)	(1,0
CAPITAL SHARE TRANSACTIONS				
Common shares:				
Net proceeds from shares issued to shareholders due to reinvestment of distributions	12,298	--	7,371	
Repurchased	--	--	(24,038)	
Net increase in net assets applicable to Common shares from capital share transactions	12,298	--	(16,667)	
Net increase (decrease) in net assets applicable to Common shares	(341,839)	(4,437,060)	(947,464)	(1,8
Net assets applicable to Common shares at the beginning of year	58,096,570	62,533,630	20,552,254	22,4
Net assets applicable to Common shares at the end of year	\$ 57,754,731	\$ 58,096,570	\$ 19,604,790	\$20,5
Undistributed (Over-distribution of) net investment income at the end of year	\$ 492,363	\$ 92,116	\$ 75,318	\$ (

See accompanying notes to financial statements.

Nuveen Investments 47

| Statement of  
| CHANGES in NET ASSETS (continued)

	ARIZONA DIVIDEND ADVANTAGE 3 (NXE)		TEXAS QUALITY INCOME (NT	
	YEAR ENDED 7/31/09	YEAR ENDED 7/31/08	YEAR ENDED 7/31/09	7
OPERATIONS				
Net investment income	\$ 2,685,306	\$ 2,785,211	\$ 8,942,930	\$ 8,9
Net realized gain (loss) from:				
Investments	(323,361)	(469,351)	(260,097)	(3
Futures contracts	--	--	279,232	(
Change in net unrealized appreciation (depreciation) of:				
Investments	(880,027)	(3,032,163)	(1,592,328)	(7,7
Futures contracts	--	--	(80,805)	
Distributions to Preferred Shareholders:				
From net investment income	(412,423)	(748,495)	(1,209,638)	(2,2
From accumulated net realized gains	--	--	(148,005)	(1

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

Net increase (decrease) in net assets applicable to Common shares from operations	1,069,495	(1,464,798)	5,931,289	(1,464,798)
<b>DISTRIBUTIONS TO COMMON SHAREHOLDERS</b>				
From net investment income	(2,005,865)	(2,006,230)	(6,752,824)	(6,752,824)
From accumulated net realized gains	--	--	(446,272)	(446,272)
Decrease in net assets applicable to Common shares from distributions to Common Shareholders	(2,005,865)	(2,006,230)	(7,199,096)	(7,199,096)
<b>CAPITAL SHARE TRANSACTIONS</b>				
Common shares:				
Net proceeds from shares issued to shareholders due to reinvestment of distributions	--	--	67,966	67,966
Repurchased	(15,380)	--	--	(15,380)
Net increase in net assets applicable to Common shares from capital share transactions	(15,380)	--	67,966	67,966
Net increase (decrease) in net assets applicable to Common shares	(951,750)	(3,471,028)	(1,199,841)	(8,511,750)
Net assets applicable to Common shares at the beginning of year	40,080,570	43,551,598	132,713,201	141,224,951
Net assets applicable to Common shares at the end of year	\$ 39,128,820	\$ 40,080,570	\$ 131,513,360	\$ 132,713,201
Undistributed (Over-distribution of) net investment income at the end of year	\$ 157,033	\$ (109,985)	\$ 1,103,875	\$ 1,103,875

See accompanying notes to financial statements.

48 Nuveen Investments

| Notes to  
| FINANCIAL STATEMENTS

1. GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES

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) (collectively, the "Funds"). 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 NYSE Amex (formerly, 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

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

designated state income taxes by investing primarily in a 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 US 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. Futures contracts are valued using the closing settlement price, or, in the absence of such a price, at the mean of the bid and asked prices. When market price quotes are not readily available (which is usually the case for municipal securities), the pricing service or, in the absence of a pricing service for a particular investment or derivative instrument, the Board of Directors/Trustees of the Fund, or its designee, may establish fair value using a wide variety of market data including yields or prices of investments of comparable quality, type of issue, coupon, maturity and rating, market quotes or indications of value from security dealers, evaluations of anticipated cash flows or collateral, general market conditions and other information and analysis, including the obligor's credit characteristics considered relevant. Temporary investments in securities that have variable rate and demand features qualifying them as short-term investments are valued at amortized cost, which approximates 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 July 31, 2009, 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.

### Income Taxes

Each Fund is a separate taxpayer for federal income tax purposes. Each Fund intends to distribute substantially all of its 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.

Nuveen Investments 49



For all open tax years and all major taxing jurisdictions, management of the Funds has concluded that there are no significant uncertain tax positions that would require recognition in the financial statements. Open tax years are those that are open for examination by taxing authorities (i.e., generally the last four tax year ends and the interim tax period since then). Furthermore, management of the Funds is also not aware of any tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly change in the next twelve months.

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 at least 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 US 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. As of July 31, 2009, 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)	TE QUAL INC (
-----					
Number of shares:					
Series M	--	--	--	736	
Series T	--	424	--	--	
Series W	--	--	665	--	
Series TH	1,115	--	--	--	1,
-----					
Total	1,115	424	665	736	2,
=====					

Beginning in February 2008, more shares for sale were submitted in the regularly scheduled auctions for the Preferred shares issued by the Funds than there were offers to buy. This meant that these auctions "failed to clear," and that many Preferred shareholders who wanted to sell their shares in these auctions were unable to do so. Preferred shareholders unable to sell their shares received distributions at the "maximum rate" applicable to failed auctions as calculated in accordance with the pre-established terms of the Preferred shares.

These developments have generally not affected the portfolio management or

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

investment policies of the Funds. However, one continuing implication of these auction failures for Common shareholders is that the Funds' cost of leverage likely has been incrementally higher at times, than it otherwise might have been had the auctions continued to be successful. As a result, the

50 Nuveen Investments

Funds' future Common share earnings may likely have been incrementally lower than they otherwise might have been. As of July 31, 2009, the aggregate amount of outstanding Preferred shares redeemed by each Fund is as follows:

	ARIZONA PREMIUM INCOME (NAZ)	ARIZONA DIVIDEND ADVANTAGE (NFZ)	ARIZONA DIVIDEND ADVANTAGE (NK)
Preferred shares redeemed, at liquidation value	\$ 2,125,000	\$ 1,400,000	\$ 1,875,000

Effective May 1, 2009, auction participation fees with respect to auctions that have failed have been reduced from 25 bps (annualized) to 15 bps (annualized). All auction participants have signed new agreements incorporating this change.

Inverse Floating Rate Securities

Each Fund is authorized to 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"). The inverse floater held by a Fund gives the Fund the right (a) to cause the holders of the floating rate certificates to tender their notes at par, and (b) to have the broker transfer the fixed-rate bond held by the trust to the Fund, thereby collapsing the trust. An investment in an externally-deposited inverse floater is identified in the Portfolio of Investments as "(IF) - Inverse floating rate investment." An investment in a

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

self-deposited inverse floater is accounted for as a financing transaction in accordance with Statement of Financial Accounting Standards No. 140 (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 "(UB) - 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 the related interest paid to the holders of the short-term floating rate certificates is recognized as "Interest expense on floating rate obligations" on the Statement of Operations.

During the fiscal year ended July 31, 2009, each Fund invested in externally deposited inverse floaters and/or self-deposited inverse floaters.

Each Fund may also enter into shortfall and forbearance agreements (sometimes referred to as a "recourse trust" or "credit recovery swap") (such agreements referred to herein as "Recourse Trusts") with a broker-dealer by which a Fund agrees to reimburse the broker-dealer, in certain circumstances, for the difference between the liquidation value of the fixed-rate bond held by the trust and the liquidation value of the floating rate certificates issued by the trust plus any shortfalls in interest cash flows. Under these agreements, a Fund's potential exposure to losses related to or on inverse floaters may increase beyond the value of a Fund's inverse floater investments as a Fund may potentially be liable to fulfill all amounts owed to holders of the floating rate certificates. At period end, any such shortfall is recognized as "Unrealized depreciation on Recourse Trusts" on the Statement of Assets and Liabilities.

At July 31, 2009, the Funds were not invested in externally-deposited Recourse Trusts.

	ARIZONA PREMIUM INCOME (NAZ)	ARIZONA DIVIDEND ADVANTAGE (NFZ)	ARIZONA DIVIDEND ADVANTAGE 2 (NKR)
Maximum exposure to Recourse Trusts	\$ --	\$ --	\$ --

Nuveen Investments 51

| Notes to  
| FINANCIAL STATEMENTS (continued)

The average floating rate obligations outstanding and average annual interest rate and fees related to self-deposited inverse floaters during the fiscal year ended July 31, 2009, were as follows:

	TEXAS QUALITY INCOME (NTX)
Average floating rate obligations	\$ 1,008,986

Average annual interest rate and fees 0.62%

Futures Contracts

Each Fund is subject to interest rate risk in the normal course of pursuing its investment objectives and is authorized to invest in futures contracts in order to gain exposure to, or hedge against changes in interest rates. Upon entering into a futures contract, a Fund is required to deposit with the broker an amount of cash or liquid securities equal to a specified percentage of the contract amount. This is known as the "initial margin." Cash held by the broker to cover initial margin requirements on open futures contracts, if any, is recognized as "Deposits with brokers for open futures contracts" on the Statement of Assets and Liabilities. Subsequent payments ("variation margin") are made or received by a Fund each day, depending on the daily fluctuation of the value of the contract. Variation margin is recognized as a receivable or payable for "Variation Margin on futures contracts" on the Statement of Assets and Liabilities, when applicable.

During the period the futures contract is open, changes in the value of the contract are recorded as an unrealized gain or loss by "marking-to-market" on a daily basis to reflect the changes in market value of the contract and is recognized as "Change in net unrealized appreciation (depreciation) of futures contracts" on the Statement of Operations. When the contract is closed or expired, a Fund records a realized gain or loss equal to the difference between the value of the contract on the closing date and value of the contract when originally entered into and is recognized as "Net realized gain (loss) from futures contracts" on the Statement of Operations. Texas Quality Income (NTX) was the only Fund to invest in futures contracts during the fiscal year ended July 31, 2009.

Risks of investments in futures contracts include the possible adverse movement of the securities or indices underlying the contracts, the possibility that there may not be a liquid secondary market for the contracts and/or that a change in the value of the contract may not correlate with a change in the value of the underlying securities or indices.

The average number of futures contracts outstanding for Texas Quality Income (NTX) during the fiscal year ended July 31, 2009, was as follows:

	TEXAS QUALITY INCOME (NTX)
Average number of futures contracts outstanding	8

Refer to Footnote 3 - Derivative Instruments and Hedging Activities for further details on futures contract activity.

52 Nuveen Investments

Market and Counterparty Credit Risk

In the normal course of business each Fund may invest in financial instruments and enter into financial transactions where risk of potential loss exists due to changes in the market (market risk) or failure of the other party to the transaction to perform (counterparty credit risk). The potential loss could exceed the value of the financial assets recorded on the financial statements.

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

Financial assets, which potentially expose each Fund to counterparty credit risk, consist principally of cash due from counterparties on forward, option and swap transactions. The extent of each Fund's exposure to counterparty credit risk in respect to these financial assets approximates their carrying value as recorded on the Statement of Assets and Liabilities. Futures contracts expose a Fund to minimal counterparty credit risk as they are exchange traded and the exchange's clearinghouse, which is counterparty to all exchange traded futures, guarantees the futures contracts against default.

Each Fund helps manage counterparty credit risk by entering into agreements only with counterparties Nuveen Asset Management (the "Adviser"), a wholly-owned subsidiary of Nuveen Investments, Inc. ("Nuveen"), believes have the financial resources to honor their obligations and by having the Adviser monitor the financial stability of the counterparties. Additionally, counterparties may be required to pledge collateral daily (based on the daily valuation of the financial asset) on behalf of each Fund with a value approximately equal to the amount of any unrealized gain above a pre-determined threshold. Reciprocally, when each Fund has an unrealized loss, 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 valuations fluctuate, either up or down, by at least the predetermined threshold amount.

### Zero Coupon Securities

Each Fund is authorized to invest in zero coupon securities. A zero coupon security does not pay a regular interest coupon to its holders during the life of the security. Tax-exempt income to the holder of the security comes from accretion of the difference between the original purchase price of the security at issuance and the par value of the security at maturity and is effectively paid at maturity. Such securities are included in the Portfolios of Investments with a 0.000% coupon rate in their description. The market prices of zero coupon securities generally are more volatile than the market prices of securities that pay interest periodically.

### Custodian Fee Credit

Each Fund has an arrangement with the custodian bank whereby certain custodian fees and expenses are reduced by net credits earned on each Fund's cash on deposit with the bank. Such deposit arrangements are an alternative to overnight investments. Credits for cash balances may be offset by charges for any days on which a Fund overdraws its account at the custodian bank.

### 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 US 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.

2. FAIR VALUE MEASUREMENTS

During the current fiscal period, the Funds adopted the provisions of Statement of Financial Accounting Standards No. 157 (SFAS No. 157) "Fair Value Measurements." SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosure about fair value measurements. In determining the value of each Fund's investments various inputs are used. These inputs are summarized in the three broad levels listed below:

Level 1 - Quoted prices in active markets for identical securities.

Level 2 - Other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, credit risk, etc.).

Level 3 - Significant unobservable inputs (including management's assumptions in determining the fair value of investments).

Nuveen Investments 53

| Notes to  
| FINANCIAL STATEMENTS (continued)

The inputs or methodology used for valuing securities are not an indication of the risk associated with investing in those securities. The following is a summary of each Fund's fair value measurements as of July 31, 2009:

ARIZONA PREMIUM INCOME (NAZ)	LEVEL 1	LEVEL 2	LEVEL 3
Investments:			
Municipal Bonds*	\$ --	\$ 82,878,546	\$ 1,978,300
<b>Total</b>	<b>\$ --</b>	<b>\$ 82,878,546</b>	<b>\$ 1,978,300</b>
ARIZONA DIVIDEND ADVANTAGE (NFZ)	LEVEL 1	LEVEL 2	LEVEL 3
Investments:			
Municipal Bonds*	\$ --	\$ 27,210,671	\$ 221,570
Short-Term Investments	--	1,500,000	--
<b>Total</b>	<b>\$ --</b>	<b>\$ 28,710,671</b>	<b>\$ 221,570</b>
ARIZONA DIVIDEND ADVANTAGE 2 (NKR)	LEVEL 1	LEVEL 2	LEVEL 3
Investments:			
Municipal Bonds*	\$ --	\$ 46,318,302	\$ 894,192
<b>Total</b>	<b>\$ --</b>	<b>\$ 46,318,302</b>	<b>\$ 894,192</b>
ARIZONA DIVIDEND ADVANTAGE 3 (NXE)	LEVEL 1	LEVEL 2	LEVEL 3
Investments:			
Municipal Bonds*	\$ --	\$ 55,949,236	\$ 546,011
<b>Total</b>	<b>\$ --</b>	<b>\$ 55,949,236</b>	<b>\$ 546,011</b>
TEXAS QUALITY INCOME (NTX)	LEVEL 1	LEVEL 2	LEVEL 3
Investments:			
Municipal Bonds*	\$ --	\$ 194,201,705	\$ 950,615
<b>Total</b>	<b>\$ --</b>	<b>\$ 194,201,705</b>	<b>\$ 950,615</b>

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

\* Refer to the Fund's Portfolio of Investments for industry breakdown of Municipal Bonds classified as Level 3.

The following is a reconciliation of each Fund's Level 3 investments held at the beginning and end of the measurement period:

	ARIZONA PREMIUM INCOME (NAZ) LEVEL 3 INVESTMENTS	ARIZONA DIVIDEND ADVANTAGE (NFZ) LEVEL 3 INVESTMENTS	ARIZONA DIVIDEND ADVANTAGE (NKR) LEVEL 2 INVESTMENTS
Balance at beginning of year	\$ 1,278,800	\$ 143,226	\$ 578,000
Gains (losses):			
Net realized gains (losses)	--	--	--
Net change in unrealized appreciation (depreciation)	699,500	78,344	316,175
Net purchases at cost (sales at proceeds)	--	--	--
Net discounts (premiums)	--	--	--
Net transfers in to (out of) at end of period fair value	--	--	--
Balance at end of year	\$ 1,978,300	\$ 221,570	\$ 894,175

"Change in net unrealized appreciation (depreciation) of investments" presented on the Statement of Operations includes net appreciation (depreciation) related to securities classified as Level 3 at period end as follows:

	ARIZONA PREMIUM INCOME (NAZ)	ARIZONA DIVIDEND ADVANTAGE (NFZ)	ARIZONA DIVIDEND ADVANTAGE 2 (NKR)
Level 3 net appreciation (depreciation)	\$ 699,500	\$ 78,344	\$ 316,175

54 Nuveen Investments

3. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

During the current fiscal period, the Funds adopted the provisions of Statement of Financial Accounting Standards No. 161 (SFAS No. 161) "Disclosures about Derivative Instruments and Hedging Activities." This standard is intended to enhance financial statement disclosures for derivative instruments and hedging activities and enable investors to better understand: a) how and why a fund uses derivative instruments; b) how derivative instruments are accounted for; and c) how derivative instruments affect a fund's financial position, results of operations and cash flows, if any. The Funds record derivative instruments at fair value with changes in fair value recognized on the Statement of Operations,

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

when applicable. Even though the Funds' investments in derivatives may represent economic hedges, they are considered to be non-hedge transactions for SFAS No. 161 disclosure purposes. For additional information on the derivative instruments in which each Fund was invested during and at the end of the reporting period, refer to the Portfolio of Investments, Financial Statements and Footnote 1 - General Information and Significant Accounting Policies.

The following tables present the amount of net realized gain (loss) and net change in unrealized appreciation (depreciation) recognized for the fiscal year ended July 31, 2009, on derivative instruments, as well as the primary risk exposure associated with each. Texas Quality Income (NTX) held derivative instruments during the fiscal year ended July 31, 2009. The Funds had no derivative contracts outstanding at July 31, 2009.

	TEXAS QUALITY INCOME (NTX)
NET REALIZED GAIN (LOSS) FROM FUTURES CONTRACTS	
-----	
RISK EXPOSURE	
Interest Rate	\$ 279,232
=====	

	TEXAS QUALITY INCOME (NTX)
CHANGE IN NET UNREALIZED APPRECIATION (DEPRECIATION) OF FUTURES CONTRACTS	
-----	
RISK EXPOSURE	
Interest Rate	\$ (80,805)
=====	

4. FUND SHARES

Common Shares

On July 30, 2008, the Funds' Board of Directors/Trustees approved an open-market share repurchase program under which each Fund may repurchase an aggregate of up to approximately 10% of its outstanding Common shares.

Transactions in Common shares were as follows:

	ARIZONA PREMIUM INCOME (NAZ)		ARIZONA DIVIDEND ADVANTAGE (NFZ)	
	YEAR ENDED 7/31/09	YEAR ENDED 7/31/08	YEAR ENDED 7/31/09	YEAR ENDED 7/31/08
	-----		-----	
Common shares:				
Issued to shareholders due to reinvestment of distributions	944	--	581	--
Repurchased	--	--	(2,500)	--
-----				
Weighted average Common share:				
Price per share repurchased	--	--	\$ 9.60	--
Discount per share repurchased	--	--	19.20%	--
=====				



		ARIZONA DIVIDEND ADVANTAGE 3 (NXE)	
		YEAR ENDED 7/31/09	YEAR ENDED 7/31/08
-----			
Common shares:			
Issued to shareholders due to reinvestment of distributions		--	--
Repurchased		(1,600)	--
-----			
Weighted average Common share:			
Price per share repurchased	\$	9.59	--
Discount per share repurchased		18.61%	--
=====			

Nuveen Investments 55

| Notes to  
| FINANCIAL STATEMENTS (continued)

Preferred Shares

Transactions in Preferred shares were as follows:

	ARIZONA PREMIUM INCOME (NAZ)				ARIZON ADVAN	
	YEAR ENDED 7/31/09		YEAR ENDED 7/31/08		YEAR ENDED 7/31/09	
	SHARES	AMOUNT	SHARES	AMOUNT	SHARES	AM
-----						
Preferred shares redeemed:						
Series T	--	\$ --	--	\$ --	56	\$ 1,400
Series TH	85	2,125,000	--	--	--	--
-----						
Total	85	\$ 2,125,000	--	\$ --	56	\$ 1,400
=====						

	ARIZONA DIVIDEND ADVANTAGE 2 (NKR)				ARIZ ADVA	
	YEAR ENDED 7/31/09		YEAR ENDED 7/31/08		YEAR ENDED 7/31/09	
	SHARES	AMOUNT	SHARES	AMOUNT	SHARES	AMOU
-----						
Preferred shares redeemed:						

Preferred shares redeemed:

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

Series M	--	\$ --	--	\$ --	144	\$ 3,600
Series W	75	1,875,000	--	--	--	--
-----						
Total	75	\$ 1,875,000	--	\$ --	144	\$ 3,600
=====						

	TEXAS QUALITY INCOME (NTX)			
	YEAR ENDED 7/31/09		YEAR ENDED 7/31/08	
	SHARES	AMOUNT	SHARES	AMOUNT
-----				
Preferred shares redeemed:				
Series M	44	\$ 1,100,000	--	\$ --
Series TH	114	2,850,000	--	--
-----				
Total	158	\$ 3,950,000	--	\$ --
=====				

5. INVESTMENT TRANSACTIONS

Purchases and sales (including maturities but excluding short-term investments and derivative transactions) during the fiscal year ended July 31, 2009, were as follows:

	ARIZONA PREMIUM INCOME (NAZ)	ARIZONA DIVIDEND ADVANTAGE (NFZ)	ARIZONA DIVIDEND ADVANTAGE 2 (NKR)	ARIZONA DIVIDEND ADVANTAGE (NKR)
-----				
Purchases	\$ 20,787,765	\$ 1,814,850	\$ 2,519,026	\$ 5,199,000
Sales and maturities	21,738,574	4,922,805	4,895,816	7,833,200
=====				

56 Nuveen Investments

6. 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 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, if any. 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 July 31, 2009, the cost of investments was as follows:

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

	ARIZONA PREMIUM INCOME (NAZ)	ARIZONA DIVIDEND ADVANTAGE (NFZ)	ARIZONA DIVIDEND ADVANTAGE 2 (NKR)
Cost of investments	\$ 84,365,490	\$ 30,540,646	\$ 48,458,019

Gross unrealized appreciation and gross unrealized depreciation of investments at July 31, 2009, were as follows:

	ARIZONA PREMIUM INCOME (NAZ)	ARIZONA DIVIDEND ADVANTAGE (NFZ)	ARIZONA DIVIDEND ADVANTAGE (NKR)
Gross unrealized:			
Appreciation	\$ 3,238,928	\$ 669,430	\$ 1,828,400
Depreciation	(2,747,572)	(2,277,835)	(3,074,000)
Net unrealized appreciation (depreciation) of investments	\$ 491,356	\$ (1,608,405)	\$ (1,245,600)

The tax components of undistributed net tax-exempt income, net ordinary income and net long-term capital gains at July 31, 2009, the Funds' tax year end, were as follows:

	ARIZONA PREMIUM INCOME (NAZ)	ARIZONA DIVIDEND ADVANTAGE (NFZ)	ARIZONA DIVIDEND ADVANTAGE 2 (NKR)
Undistributed net tax-exempt income *	\$ 670,156	\$ 147,439	\$ 288,408
Undistributed net ordinary income **	--	11	--
Undistributed net long-term capital gains	--	--	--

\* Undistributed net tax-exempt income (on a tax basis) has not been reduced for the dividend declared on July 1, 2009, paid on August 3, 2009.

\*\* 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' tax years ended July 31, 2009 and July 31, 2008, was designated for purposes of the dividends paid deduction as follows:

ARIZONA	ARIZONA	ARIZONA
---------	---------	---------

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

	PREMIUM INCOME (NAZ)	DIVIDEND ADVANTAGE (NFZ)	DIVIDEND ADVANTAGE 2 (NKR)
2009			
Distributions from net tax-exempt income***	\$ 3,419,031	\$ 1,198,865	\$ 2,063,963
Distributions from net ordinary income**	--	--	--
Distributions from net long-term capital gains****	--	--	--

	ARIZONA PREMIUM INCOME (NAZ)	ARIZONA DIVIDEND ADVANTAGE (NFZ)	ARIZONA DIVIDEND ADVANTAGE 2 (NKR)
2008			
Distributions from net tax-exempt income	\$ 3,718,906	\$ 1,375,879	\$ 2,317,202
Distributions from net ordinary income**	--	--	--
Distributions from net long-term capital gains	--	24,687	189,057

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

\*\*\* The Funds hereby designate these amounts paid during the fiscal year ended July 31, 2009, as Exempt Interest Dividends.

\*\*\*\* The Funds designated as a long-term capital gain dividend, pursuant to the Internal Revenue Code Section 852(b)(3), the amount necessary to reduce earnings and profits of the Funds related to net capital gain to zero for the tax year ended July 31, 2009.

Nuveen Investments 57

| Notes to  
| FINANCIAL STATEMENTS (continued)

At July 31, 2009, the Funds' 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 (NFZ)	ARIZONA DIVIDEND ADVANTAGE 2 (NKR)	ARIZONA DIVIDEND ADVANTAGE 3 (NXE)
Expiration:				
July 31, 2011	\$ 359,724	\$ --	\$ --	\$ --
July 31, 2012	1,553,627	--	--	158,487
July 31, 2013	--	--	--	160,902
July 31, 2014	--	--	--	218,127
July 31, 2016	562,384	246,571	212,903	363,937
July 31, 2017	323,876	210,308	220,271	258,905
Total	\$ 2,799,611	\$ 456,879	\$ 433,174	\$ 1,160,358

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

=====

The Funds have elected to defer net realized losses from investments incurred from November 1, 2008 through July 31, 2009, the Funds' tax year end, ("post-October losses") in accordance with federal income tax regulations. Post-October losses are treated as having arisen on the first day of the following fiscal year:

	ARIZONA PREMIUM INCOME (NAZ)	ARIZONA DIVIDEND ADVANTAGE (NFZ)	ARIZONA DIVIDEND ADVANTAGE 2 (NKR)
Post-October capital losses	\$ 2,566,026	\$ 321,087	\$ 239,484

=====

7. 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 the Adviser and a specific fund-level component, based only on 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 of each Fund as follows:

AVERAGE DAILY NET ASSETS (1)	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

=====

58 Nuveen Investments

AVERAGE DAILY NET ASSETS (1)	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

=====

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

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 net assets managed as stated in the following table. As of July 31, 2009, the complex-level fee rate was .1957%.

The complex-level fee schedule is as follows:

COMPLEX-LEVEL NET ASSET BREAKPOINT LEVEL (1)	EFFECTIVE RATE AT BREAKPOINT LEVEL
\$55 billion	.2000%
\$56 billion	.1996
\$57 billion	.1989
\$60 billion	.1961
\$63 billion	.1931
\$66 billion	.1900
\$71 billion	.1851
\$76 billion	.1806
\$80 billion	.1773
\$91 billion	.1691
\$125 billion	.1599
\$200 billion	.1505
\$250 billion	.1469
\$300 billion	.1445

- (1) The complex-level fee component of the management fee for the funds is calculated based upon the aggregate daily managed net assets of all Nuveen funds, with such daily managed net assets defined separately for each fund in its management agreement, but excluding assets attributable to investments in other Nuveen funds. For the complex-level and fund-level fee components, daily managed net assets include assets managed by the Adviser that are attributable to financial leverage. For these purposes, financial leverage includes the funds use of preferred stock and borrowings and investments in the residual interest certificates (also called inverse floating rate securities) in tender option bond (TOB) trusts, including the portion of assets held by the TOB trust that has been effectively financed by the trust's issuance of floating rate securities, subject to an agreement by the Adviser to limit the amount of such assets for determining managed net assets in certain circumstances.

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, 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

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

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.

Nuveen Investments 59

| Notes to  
| FINANCIAL STATEMENTS (continued)

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, 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.

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, 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.

8. NEW ACCOUNTING PRONOUNCEMENTS

Financial Accounting Standards Board Statement of Financial Accounting Standards

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

No. 166 (SFAS No. 166)

During June 2009, the Financial Accounting Standards Board issued SFAS No. 166, "Accounting for Transfers of Financial Assets -an amendment of SFAS No. 140." The objective of SFAS No. 166 is to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor's continuing involvement, if any, in transferred financial assets.

SFAS No. 166 is effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter. Earlier application is prohibited. The recognition and measurement provisions of SFAS No. 166 must be applied to transfers occurring on or after the effective date. Additionally, the disclosure provisions of SFAS No. 166 should be applied to transfers that occurred both before and after the effective date of SFAS No. 166. At this time, management is evaluating the implications of SFAS No. 166 and the impact it will have on the financial statement amounts and disclosures, if any.

60 Nuveen Investments

9. SUBSEQUENT EVENTS

Distributions to Common Shareholders

The Funds declared Common share dividend distributions from their tax-exempt net investment income which were paid on September 1, 2009, to shareholders of record on August 15, 2009, as follows:

	ARIZONA PREMIUM INCOME (NAZ)	ARIZONA DIVIDEND ADVANTAGE (NFZ)	ARIZONA DIVIDEND ADVANTAGE 2 (NKR)
Dividend per share	\$ .0540	\$ .0525	\$ .0585

Financial Accounting Standards Board Statement of Financial Accounting Standards No. 165 (SFAS No. 165)

In May 2009, the Financial Accounting Standards Board issued SFAS No. 165 "Subsequent Events." SFAS No. 165 requires an entity to recognize in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet. SFAS No. 165 is intended to establish general standards of accounting and for disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. SFAS No. 165 requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date - that is, whether that date represents the date the financial statements were issued or were available to be issued. SFAS No. 165 is effective for interim and annual periods ending after June 15, 2009. The Funds have performed an evaluation of subsequent events through September 25, 2009, which is the date the financial statements were issued.



| Financial HIGHLIGHTS

Selected data for a Common share outstanding throughout each period:

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

ARIZONA PREMIUM INCOME (NAZ)

Year Ended 7/31:

2009	\$ 13.00	\$ .85	\$ (.16)	\$ (.13)	\$
2008	14.00	.88	(1.05)	(.22)	
2007	14.10	.83	(.10)	(.22)	
2006	14.53	.83	(.39)	(.18)	
2005	14.04	.86	.56	(.09)	

ARIZONA DIVIDEND ADVANTAGE (NFZ)

Year Ended 7/31:

2009	13.26	.84	(.67)	(.14)	
2008	14.48	.91	(1.23)	(.25)	
2007	14.77	.91	(.17)	(.24)	
2006	15.37	.93	(.40)	(.20)	
2005	15.00	.97	.46	(.10)	

Less Distributions

	Net Investment Income to Common Share- holders	Capital Gains to Common Share- holders	Total	Ending Common Share Net Asset Value	
--	---	--	-------	---	--

ARIZONA PREMIUM INCOME (NAZ)

Year Ended 7/31:

2009	\$ (.64)	\$ --	\$ (.64)	\$ 12.92	\$
2008	(.61)	--	(.61)	13.00	
2007	(.61)	--	(.61)	14.00	
2006	(.69)	--	(.69)	14.10	
2005	(.84)	--	(.84)	14.53	

ARIZONA DIVIDEND ADVANTAGE (NFZ)

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

Year Ended 7/31:				
2009	(.63)	--	(.63)	12.66
2008	(.64)	(.01)	(.65)	13.26
2007	(.71)	(.06)	(.77)	14.48
2006	(.84)	(.08)	(.92)	14.77
2005	(.92)	(.04)	(.96)	15.37

Preferred Shares at End of Period

	Aggregate Amount Outstanding (000)	Liquidation and Market Value Per Share	Asset Coverage Per Share
--	---	---	--------------------------------

ARIZONA PREMIUM INCOME (NAZ)

Year Ended 7/31:			
2009	\$27,875	\$25,000	\$76,798
2008	30,000	25,000	73,414
2007	30,000	25,000	77,111
2006	30,000	25,000	77,520
2005	30,000	25,000	79,019

ARIZONA DIVIDEND ADVANTAGE (NFZ)

Year Ended 7/31:			
2009	10,600	25,000	71,238
2008	12,000	25,000	67,817
2007	12,000	25,000	71,748
2006	12,000	25,000	72,628
2005	12,000	25,000	74,485

62 Nuveen Investments

Ratios/Suppl

	Total Returns		Ending Net Assets Applicable to Common Shares (000)	Ratios/ Appli Befor Expenses Including Interest+
	Based on Market Value*	Based on Share Net Asset Value*		
ARIZONA PREMIUM INCOME (NAZ)				
Year Ended 7/31:				
2009	(2.61)%	4.73%	\$ 57,755	1.33%
2008	7.10	(2.87)	58,097	1.40
2007	(.22)	3.62	62,534	1.32
2006	(5.62)	1.84	63,024	1.21

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

2005	5.17	9.69	64,822	1.20
ARIZONA DIVIDEND ADVANTAGE (NFZ)				
-----				
Year Ended 7/31:				
2009	(6.12)	.58	19,605	1.51
2008	7.72	(4.09)	20,552	1.58
2007	(11.63)	3.24	22,439	1.48
2006	4.54	2.14	22,862	1.36
2005	10.88	9.04	23,753	1.34
=====				

Ratios/Supplemental Data

Ratios to Average Net Assets  
Applicable to Common Shares  
After Credit/Reimbursement\*\*

	Expenses Including Interest++(a)	Expenses Excluding Interest++(a)	Net Investment Income++	Portfolio Turnover Rate
-----				
ARIZONA PREMIUM INCOME (NAZ)				
-----				
Year Ended 7/31:				
2009	1.33%	1.33%	7.01%	25%
2008	1.38	1.24	6.44	21
2007	1.30	1.21	5.84	13
2006	1.19	1.19	5.84	22
2005	1.19	1.19	5.92	17

ARIZONA DIVIDEND ADVANTAGE (NFZ)

-----				
Year Ended 7/31:				
2009	1.29	1.29	6.92	6
2008	1.29	1.14	6.44	10
2007	1.10	1.00	6.12	19
2006	.92	.92	6.23	24
2005	.87	.87	6.28	18
=====				

\* Total Return Based 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. The last dividend declared in the period, which is typically paid on the first business day of the following month, is assumed to be reinvested at the ending market price. The actual reinvestment for the last dividend declared in the period may take place over several days, and in some instances may not be based on the market price, so the actual reinvestment price may be different from the price used in the calculation. Total returns are not annualized.

Total Return Based 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. The last dividend declared in the period, which is typically paid on the first business day of the following month, is assumed to be reinvested at the ending net asset value. The actual reinvest price for

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

the last dividend declared in the period may often be based on the Fund's market price (and not its net asset value), and therefore may be different from the price used in the calculation. Total returns are not annualized.

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

\*\*\* Rounds to less than \$.01 per share.

+ The amounts shown are based on Common share equivalents.

++ Ratios do not reflect the effect of dividend payments to Preferred shareholders; net investment income ratios reflect income earned and expenses incurred on assets attributable to Preferred shares.

(a) 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.

Nuveen Investments 63

| Financial HIGHLIGHTS (continued)

Selected data for a Common share outstanding throughout each period:

	Beginning Common Share Net Asset Value	Net Investment Income	Net Realized/ Unrealized Gain (Loss)	Investment Operations	
				Distributions from Net Investment Income to Preferred Share- holders+	Dis
ARIZONA DIVIDEND ADVANTAGE 2 (NKR)					
Year Ended 7/31:					
2009	\$ 13.66	\$ .93	\$ (.29)	\$ (.14)	\$
2008	14.76	.96	(1.03)	(.24)	
2007	15.00	.97	(.18)	(.24)	
2006	15.56	.96	(.37)	(.20)	
2005	15.10	.97	.59	(.11)	
ARIZONA DIVIDEND ADVANTAGE 3 (NXE)					
Year Ended 7/31:					
2009	13.07	.88	(.41)	(.13)	
2008	14.20	.91	(1.15)	(.24)	
2007	14.32	.90	(.10)	(.25)	
2006	14.62	.88	(.26)	(.19)	
2005	14.01	.89	.62	(.10)	

Less Distributions

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

	Net Investment Income to Common Share- holders	Capital Gains to Common Share- holders	Total	Ending Common Share Net Asset Value
--	---	--	-------	---

ARIZONA DIVIDEND ADVANTAGE 2 (NKR)

Year Ended 7/31:

2009	\$ (.70)	\$ --	\$ (.70)	\$ 13.46	\$
2008	(.71)	(.06)	(.77)	13.66	
2007	(.74)	(.04)	(.78)	14.76	
2006	(.83)	(.11)	(.94)	15.00	
2005	(.86)	(.12)	(.98)	15.56	

ARIZONA DIVIDEND ADVANTAGE 3 (NXE)

Year Ended 7/31:

2009	(.65)	--	(.65)	12.76
2008	(.65)	--	(.65)	13.07
2007	(.67)	--	(.67)	14.20
2006	(.73)	--	(.73)	14.32
2005	(.80)	--	(.80)	14.62

Preferred Shares at End of Period

	Aggregate Amount Outstanding (000)	Liquidation and Market Value Per Share	Asset Coverage Per Share
--	---	---	--------------------------------

ARIZONA DIVIDEND ADVANTAGE 2 (NKR)

Year Ended 7/31:

2009	\$ 16,625	\$ 25,000	\$ 74,367
2008	18,500	25,000	70,015
2007	18,500	25,000	73,616
2006	18,500	25,000	74,277
2005	18,500	25,000	75,952

ARIZONA DIVIDEND ADVANTAGE 3 (NXE)

Year Ended 7/31:

2009	18,400	25,000	78,164
2008	22,000	25,000	70,546
2007	22,000	25,000	74,490
2006	22,000	25,000	74,902
2005	22,000	25,000	75,942

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

	Total Returns			Ratios to Average Net Assets Applicable to Common Shares Before Credit/Reimbursement**	
	Based on Market Value*	Based on Common Share Net Asset Value*	Ending Net Assets Applicable to Common Shares (000)	Expenses Including Interest++(a)	Portfolio Turnover Rate
ARIZONA DIVIDEND ADVANTAGE 2 (NKR)					
Year Ended 7/31:					
2009	(4.99)%	4.09%	\$ 32,829	1.40%	
2008	(3.16)	(2.38)	33,311	1.49	
2007	4.52	3.59	35,976	1.39	
2006	.82	2.49	36,465	1.28	
2005	16.30	9.74	37,704	1.27	

ARIZONA DIVIDEND ADVANTAGE 3 (NXE)					
Year Ended 7/31:					
2009	(6.18)	3.08	39,129	1.37	
2008	3.96	(3.48)	40,081	1.46	
2007	4.21	3.81	43,552	1.36	
2006	(1.80)	3.03	43,913	1.26	
2005	15.11	10.21	44,829	1.25	

	Ratios/Supplemental Data			
	Expenses Including Interest++(a)	Expenses Excluding Interest++(a)	Net Investment Income++	Portfolio Turnover Rate
ARIZONA DIVIDEND ADVANTAGE 2 (NKR)				
Year Ended 7/31:				
2009	1.10%	1.10%	7.23%	5%
2008	1.11	.96	6.70	15
2007	.93	.83	6.38	14
2006	.82	.82	6.34	11
2005	.82	.82	6.22	11
ARIZONA DIVIDEND ADVANTAGE 3 (NXE)				
Year Ended 7/31:				
2009	1.08	1.08	7.26	9
2008	1.07	.91	6.56	16
2007	.85	.75	6.19	15
2006	.78	.78	6.12	12
2005	.76	.76	6.12	15

\* Total Return Based 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. The last dividend declared in the period, which is typically paid on the first business day of the following month, is assumed to be reinvested at the ending market price. The actual reinvestment for the last dividend declared in the period may take place over several days, and in some instances may not be based on the market price, so the actual reinvestment price may be different from the price used in the calculation. Total returns are not annualized.

Total Return Based 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. The last dividend declared in the period, which is typically paid on the first business day of the following month, is assumed to be reinvested at the ending net asset value. The actual reinvest price for the last dividend declared in the period may often be based on the Fund's market price (and not its net asset value), and therefore may be different from the price used in the calculation. 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; net investment income ratios reflect income earned and expenses incurred on assets attributable to Preferred shares.

(a) 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.

Nuveen Investments 65

| Financial HIGHLIGHTS (continued)

Selected data for a Common share outstanding throughout each period:

	Investment Operations				
	Beginning Common Share Net Asset Value	Net Investment Income	Net Realized/ Unrealized Gain (Loss)	Distributions from Net Investment Income to Preferred Share- holders+	Distributio fr Capit Gains Preferr Shar holde
-----					
TEXAS QUALITY INCOME (NTX)					
-----					
Year Ended 7/31:					
2009	\$ 13.98	\$ .94	\$ (.17)	\$ (.13)	\$ (.13)

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

2008	14.87	.94	(.83)	(.23)	(.13)
2007	15.06	.95	(.11)	(.25)	(.13)
2006	15.46	.96	(.32)	(.22)	(.13)
2005	15.12	1.00	.41	(.13)	(.13)

Less Distributions

	Net Investment Income to Common Shareholders	Capital Gains to Common Shareholders	Total	Ending Common Share Net Asset Value	Ending Market Value
--	--	--------------------------------------	-------	-------------------------------------	---------------------

TEXAS QUALITY INCOME (NTX)

Year Ended 7/31:

2009	\$ (.71)	\$ (.05)	\$ (.76)	\$ 13.84	\$ 14.7
2008	(.69)	(.06)	(.75)	13.98	12.4
2007	(.73)	(.04)	(.77)	14.87	13.8
2006	(.82)	--	(.82)	15.06	14.7
2005	(.94)	--	(.94)	15.46	16.1

Preferred Shares at End of Period

	Aggregate Amount Outstanding (000)	Liquidation and Market Value Per Share	Asset Coverage Per Share
--	------------------------------------	--	--------------------------

TEXAS QUALITY INCOME (NTX)

Year Ended 7/31:

2009	\$ 65,050	\$ 25,000	\$ 75,543
2008	69,000	25,000	73,084
2007	69,000	25,000	76,173
2006	69,000	25,000	76,815
2005	69,000	25,000	78,159

66 Nuveen Investments

Ratios/Supplemental Data

Total Returns			Ratios to Average Net Applicable to Common Before Credit/Reimbur	
Based on Market	Based on Common Share Net Asset	Ending Net Assets Applicable to Common	Expenses Including	Expenses Excluding



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

	Value*	Value*	Shares (000)	Interest++(a)	Interest++
-----					
TEXAS QUALITY INCOME (NTX)					
-----					
Year Ended 7/31:					
2009	25.98%	4.80%	\$ 131,513	1.27%	1.26%
2008	(5.16)	(1.04)	132,713	1.26	1.21
2007	(.52)	3.82	141,238	1.24	1.18
2006	(4.03)	2.77	143,009	1.19	1.19
2005	17.83	8.61	146,718	1.18	1.18
=====					

Ratios/Supplemental Data

-----				
Ratios to Average Net Assets Applicable to Common Shares After Credit/Reimbursement**				
-----				
	Expenses Including Interest++(a)	Expenses Excluding Interest++(a)	Net Investment Income++	Portfolio Turnover Rate
-----				
TEXAS QUALITY INCOME (NTX)				
-----				
Year Ended 7/31:				
2009	1.26%	1.26%	7.07%	10%
2008	1.25	1.20	6.47	8
2007	1.22	1.16	6.26	9
2006	1.18	1.18	6.33	13
2005	1.16	1.16	6.44	14
=====				

\* Total Return Based 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. The last dividend declared in the period, which is typically paid on the first business day of the following month, is assumed to be reinvested at the ending market price. The actual reinvestment for the last dividend declared in the period may take place over several days, and in some instances may not be based on the market price, so the actual reinvestment price may be different from the price used in the calculation. Total returns are not annualized.

Total Return Based 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. The last dividend declared in the period, which is typically paid on the first business day of the following month, is assumed to be reinvested at the ending net asset value. The actual reinvest price for the last dividend declared in the period may often be based on the Fund's market price (and not its net asset value), and therefore may be different from the price used in the calculation. 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-CSR

shareholders; net investment income ratios reflect income earned and expenses incurred on assets attributable to Preferred shares.

- (a) 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.

Nuveen Investments 67

## Board Members & Officers

The management of the Funds, including general supervision of the duties performed for the Funds by the Adviser, is the responsibility of the Board Members of the Funds. The number of board members of the Fund is currently set at nine. None of the board members who are not "interested" persons of the Funds (referred to herein as "independent board members") has ever been a director or employee of, or consultant to, Nuveen or its affiliates. The names and business addresses of the board members and officers of the Funds, their principal occupations and other affiliations during the past five years, the number of portfolios each oversees and other directorships they hold are set forth below.

NAME, BIRTHDATE & ADDRESS	POSITION(S) HELD WITH THE FUNDS	YEAR FIRST ELECTED OR APPOINTED AND TERM(1)	NUMBER OF PORTFOLIOS IN FUND COMPLEX OVERSEEN BY BOARD MEMBER	PRINCIPAL OCCUPATION(S) INCLUDING OTHER DIRECTORSHIPS DURING PAST 5
-----				
INDEPENDENT BOARD MEMBERS:				
o ROBERT P. BREMNER 8/22/40 333 W. Wacker Drive Chicago, IL 60606	Chairman of the Board and Board Member	1997	200	Private Invest Treasurer and Washington D.C
o JACK B. EVANS 10/22/48 333 W. Wacker Drive Chicago, IL 60606	Board Member	1999	200	President, The private philan 1996); Directo Group, a publi Board of Regen University Sys Companies; Lif Director, Iowa the Advisory C Finance in the University of Alliant Energy Reserve Bank o and Chief Oper Group, Inc., a firm.
o WILLIAM C. HUNTER 3/6/48 333 W. Wacker Drive Chicago, IL 60606	Board Member	2004	200	Dean, Tippie C of Iowa (since Xerox Corporat Gamma Sigma In

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

					formerly, Dean Finance, School of Connecticut Vice President Federal Reserve Director, SS&C 2005-October 2 (1997-2007), C Georgetown Uni
o	DAVID J. KUNDERT 10/28/42 333 W. Wacker Drive Chicago, IL 60606	Board Member	2005	200	Director, North Management Com Chairman, JPMo President and Advisors Corpo Mutual Funds; President, Banc and CEO, Banc Member, Board member of the member of Boar Boerner Botani Investment Com Foundation.
o	WILLIAM J. SCHNEIDER 9/24/44 333 W. Wacker Drive Chicago, IL 60606	Board Member	1997	200	Chairman of Mi real estate in Senior Partner (retired, 2004 member, Univer Advisory Counc Orchestra ASSO Business Advis Reserve Bank; Development Co

68 Nuveen Investments

	NAME, BIRTHDATE & ADDRESS	POSITION(S) HELD WITH THE FUNDS	YEAR FIRST ELECTED OR APPOINTED AND TERM(1)	NUMBER OF PORTFOLIOS IN FUND COMPLEX OVERSEEN BY BOARD MEMBER	PRINCIPAL OCCUPATION(S) INCLUDING OTHER DIRECTORSHIPS DURING PAST 5
-----					
INDEPENDENT BOARD MEMBERS:					
o	JUDITH M. STOCKDALE 12/29/47 333 W. Wacker Drive Chicago, IL 60606	Board Member	1997	200	Executive Dire Foundation (si Director, Grea to 1994).
o	CAROLE E. STONE 6/28/47 333 W. Wacker Drive Chicago, IL 60606	Board Member	2007	200	Director, Chic 2006); Directo Incorporated ( State Commissi (since 2005);

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

					Association Ov
o	TERENCE J. TOTH 9/29/59 333 W. Wacker Drive Chicago, IL 60606	Board Member	2008	200	Director, Lega America, Inc. Musso Capital President, Nor (2004-2007); E (2004-2007); p with Northern Goodman Theatr Fellowship Boa Illinois Leade and Catalyst S 2008); formerl Funds Board (2 Investments Bo Japan Board (2 Securities Inc Trust Hong Kon

INTERESTED BOARD MEMBER:

o	JOHN P. AMBOIAN (2) 6/14/61 333 W. Wacker Drive Chicago, IL 60606	Board Member	2008	200	Chief Executiv Director (sinc Inc.; Chief Ex Nuveen Asset M Advisors, Inc. Nuveen Advisor Advisory Corp.
---	--	--------------	------	-----	--

Nuveen Investments 69

NAME, BIRTHDATE AND ADDRESS	POSITION(S) HELD WITH THE FUNDS	YEAR FIRST ELECTED OR APPOINTED (4)	NUMBER OF PORTFOLIOS IN FUND COMPLEX OVERSEEN BY OFFICER	PRINCIPAL OCCUPATION(S) DURING PAST 5
-----------------------------------	------------------------------------	---	--	---

OFFICERS OF THE FUNDS:

o	GIFFORD R. ZIMMERMAN 9/9/56 333 W. Wacker Drive Chicago, IL 60606	Chief Administrative Officer	1988	200	Managing Direc Secretary and Investments, L General Counse Nuveen Asset M Symphony Asset President and Investment Man Nuveen Investm Tradewinds Glo Barbara Asset Nuveen HydePar Solutions, Inc (since 2004) a of Nuveen Inve
---	--	------------------------------------	------	-----	---

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

NAME, BIRTHDATE	POSITION(S) HELD	YEAR FIRST ELECTED OR	NUMBER OF PORTFOLIOS IN FUND COMPLEX OVERSEEN	PRINCIPAL OCCUPATION(S)
				Director (2002 and Assistant and Nuveen Ins Chartered Fina
o WILLIAM ADAMS IV 6/9/55 333 W. Wacker Drive Chicago, IL 60606	Vice President	2007	125	Executive Vice Inc.; Executiv Products of Nu 1999), prior t Structured Inv
o MARK J.P. ANSON 6/10/59 333 W. Wacker Drive Chicago, IL 60606	Vice President	2009	200	President and Investments, I Nuveen Investm LLC (since 200 Officer of the (2006-2007) an Calpers (1999- Analyst, Chart Analyst, Certi Management Acc Auditor.
o CEDRIC H. ANTOSIEWICZ 1/11/62 333 W. Wacker Drive Chicago, IL 60606	Vice President	2007	125	Managing Direc President (199
o NIZIDA ARRIAGA 6/1/68 333 W. Wacker Drive Chicago, IL 60606	Vice President	2009	200	Vice President Investments, L Allstate Inves Financial Anal
o MICHAEL T. ATKINSON 2/3/66 333 W. Wacker Drive Chicago, IL 60606	Vice President and Assistant Secretary	2000	200	Vice President Investments, L Management (si
o MARGO L. COOK 4/11/64 333 W. Wacker Drive Chicago, IL 60606	Vice President	2009	200	Executive Vice Nuveen Investm Institutional Bear Stearns A Institutional Mellon; Charte
o LORNA C. FERGUSON 10/24/45 333 W. Wacker Drive Chicago, IL 60606	Vice President	1998	200	Managing Direc Investments, L of Nuveen Asse (2004-2005), o Institutional

70 Nuveen Investments

NAME, BIRTHDATE	POSITION(S) HELD	YEAR FIRST ELECTED OR	NUMBER OF PORTFOLIOS IN FUND COMPLEX OVERSEEN	PRINCIPAL OCCUPATION(S)
--------------------	------------------	--------------------------	--	----------------------------

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

AND ADDRESS	WITH THE FUNDS	APPOINTED(4)	BY OFFICER	DURING PAST 5
OFFICERS OF THE FUNDS:				
o STEPHEN D. FOY 5/31/54 333 W. Wacker Drive Chicago, IL 60606	Vice President and Controller	1998	200	Vice President (since 1998) o President (sin Management; Ce
o WILLIAM T. HUFFMAN 5/7/69 333 W. Wacker Drive Chicago, IL 60606	Vice President	2009	136	Chief Operatin (since 2008) o previously, Ch Executive Offi Global Advisor (2007) of Nort Limited; Certi
o WALTER M. KELLY 2/24/70 333 W. Wacker Drive Chicago, IL 60606	Chief Compliance Officer and Vice President	2003	200	Senior Vice Pr President (200 President and (2003-2006) of President (sin (since 2008) o
o DAVID J. LAMB 3/22/63 333 W. Wacker Drive Chicago, IL 60606	Vice President	2000	200	Senior Vice Pr Vice President LLC; Vice Pres Management; Ce
o TINA M. LAZAR 8/27/61 333 W. Wacker Drive Chicago, IL 60606	Vice President	2002	200	Senior Vice Pr Vice President (1999-2009); V Management (si
o LARRY W. MARTIN 7/27/51 333 W. Wacker Drive Chicago, IL 60606	Vice President and Assistant Secretary	1988	200	Vice President General Counse President (sin Nuveen Investm 2005) and Assi Nuveen Asset M Assistant Sec Advisers Inc. Management Com Asset Manageme Global Investo Management LLC HydePark Group Solutions, Inc President and Advisory Corp. Corp. (3)
o KEVIN J. MCCARTHY 3/26/66 333 W. Wacker Drive Chicago, IL 60606	Vice President and Secretary	2007	200	Managing Direc President (200 Managing Direc President, and Management, an Inc.; Vice Pre Secretary, Nuv Nuveen Investm LLC, NWQ Inves

Tradewinds Glo  
LLC, Symphony  
Asset Manageme  
and Nuveen Inv  
2007); prior t  
LLP (1997-2007

Nuveen Investments 71

NAME, BIRTHDATE AND ADDRESS	POSITION(S) HELD WITH THE FUNDS	YEAR FIRST ELECTED OR APPOINTED (4)	NUMBER OF PORTFOLIOS IN FUND COMPLEX OVERSEEN BY OFFICER	PRINCIPAL OCCUPATION(S) DURING PAST 5
-----				
OFFICERS OF THE FUNDS:				
o JOHN V. MILLER 4/10/67 333 W. Wacker Drive Chicago, IL 60606	Vice President	2007	136	Chief Investme (since 2007), (2002-2007) of Managing Direc President (200 Chartered Fina
o GREGORY MINO 1/4/71 333 W. Wacker Drive Chicago, IL 60606	Vice President	2009	200	Vice President 2008); previou Executive Dire Asset Manageme (2000-2003) an Lynch Investme Analyst.
o CHRISTOPHER M. ROHRBACHER 8/1/71 333 W. Wacker Drive Chicago, IL 60606	Vice President and Assistant Secretary	2008	200	Vice President 2008); Vice Pr Nuveen Asset M thereto, Assoc & Flom LLP (20
o JAMES F. RUANE 7/3/62 333 W. Wacker Drive Chicago, IL 60606	Vice President and Assistant Secretary	2007	200	Vice President 2007); prior t USA LLP (2005- (2002-2005); C
o MARK L. WINGET 12/21/68 333 W. Wacker Drive Chicago, IL 60606	Vice President and Assistant Secretary	2008	200	Vice President 2008); Vice Pr Nuveen Asset M thereto, Couns

(1) Board Members serve three year terms, except for two board members who are elected by the holders of Preferred Shares. The Board of Trustees is divided into three classes, Class I, Class II, and Class III, with each being elected to serve until the third succeeding annual shareholders'

meeting subsequent to its election or thereafter in each case when its respective successors are duly elected or appointed, except two board members are elected by the holders of Preferred Shares to serve until the next annual shareholders' meeting subsequent to its election or thereafter in each case when its respective successors are duly elected or appointed. The first year elected or appointed represents the year in which the board member was first elected or appointed to any fund in the Nuveen Complex.

- (2) Mr. Amboian is an interested trustee because of his position with Nuveen Investments, Inc. and certain of its subsidiaries, which are affiliates of the Nuveen Funds.
- (3) Nuveen Advisory Corp. and Nuveen Institutional Advisory Corp. were reorganized into Nuveen Asset Management, effective January 1, 2005.
- (4) Officers serve one year terms through July of each year. The year first elected or appointed represents the year in which the Officer was first elected or appointed to any fund in the Nuveen Complex.

72 Nuveen Investments

#### Annual Investment Management Agreement Approval Process

The Investment Company Act of 1940, as amended (the "1940 Act"), provides, in substance, that each investment advisory agreement between a fund and its investment adviser will continue in effect from year to year only if its continuance is approved at least annually by the fund's board members, including by a vote of a majority of the board members who are not parties to the advisory agreement or "interested persons" of any parties (the "Independent Board Members"), cast in person at a meeting called for the purpose of considering such approval. In connection with such approvals, the fund's board members must request and evaluate, and the investment adviser is required to furnish, such information as may be reasonably necessary to evaluate the terms of the advisory agreement. Accordingly, at a meeting held on May 27-29, 2009 (the "May Meeting"), the Boards of Trustees or Directors (as the case may be) (each a "Board" and each Trustee or Director, a "Board Member") of the Funds, including a majority of the Independent Board Members, considered and approved the continuation of the advisory agreements (each an "Advisory Agreement") between each Fund and Nuveen Asset Management ("NAM") for an additional one-year period. In preparation for their considerations at the May Meeting, the Board also held a separate meeting on April 21-22, 2009 (the "April Meeting"). Accordingly, the factors considered and determinations made regarding the renewals by the Independent Board Members include those made at the April Meeting.

In addition, in evaluating the Advisory Agreements, the Independent Board Members reviewed a broad range of information relating to the Funds and NAM, including absolute performance, fee and expense information for the Funds as well as comparative performance, fee and expense information for a comparable peer group of funds, the performance information of recognized and/or customized benchmarks (as applicable) of the Funds, the profitability of Nuveen for its advisory activities (which includes its wholly owned subsidiaries other than Winslow Capital Management, Inc. ("Winslow Capital"), which was recently acquired in December 2008), and other information regarding the organization, personnel, and services provided by NAM. The Independent Board Members also met quarterly as well as at other times as the need arose during the year and took into account the information provided at such meetings and the knowledge gained therefrom. Prior to approving the renewal of the Advisory Agreements, the Independent Board Members reviewed the foregoing information with their independent legal counsel and with management, reviewed materials from independent legal counsel describing applicable law and their duties in



reviewing advisory contracts, and met with independent legal counsel in private sessions without management present. The Independent Board Members considered the legal advice provided by

Nuveen Investments 73

Annual Investment Management Agreement Approval Process (continued)

independent legal counsel and relied upon their knowledge of NAM, its services and the Funds resulting from their meetings and other interactions throughout the year and their own business judgment in determining the factors to be considered in evaluating the Advisory Agreements. Each Board Member may have accorded different weight to the various factors in reaching his or her conclusions with respect to a Fund's Advisory Agreement. The Independent Board Members did not identify any single factor as all-important or controlling. The Independent Board Members' considerations were instead based on a comprehensive consideration of all the information presented. The principal factors considered by the Board and its conclusions are described below.

A. NATURE, EXTENT AND QUALITY OF SERVICES

In considering renewal of the Advisory Agreements, the Independent Board Members considered the nature, extent and quality of NAM's services, including advisory services and administrative services. The Independent Board Members reviewed materials outlining, among other things, NAM's organization and business; the types of services that NAM or its affiliates provide and are expected to provide to the Funds; the performance record of the applicable Fund (as described in further detail below); and any initiatives Nuveen had taken for the applicable fund product line.

In reviewing the services provided and the initiatives undertaken during the past year, the Independent Board Members recognized the severe market turmoil experienced in the capital markets during recent periods, including sustained periods of high volatility, credit disruption and government intervention. The Independent Board Members considered NAM's efforts, expertise and other actions taken to address matters as they arose that impacted the Funds. The Independent Board Members recognized the role of the Investment Services group which, among other things, monitors the various positions throughout the Nuveen fund complex to identify and address any systematic risks. In addition, the Capital Markets Committee of NAM provides a multi-departmental venue for developing new policies to mitigate any risks. The Independent Board Members further recognized NAM's continuous review of the Nuveen funds' investment strategies and mandates in seeking to continue to refine and improve the investment process for the funds, particularly in light of market conditions. With respect to closed-end funds that issued auction rate preferred shares ("ARPs") or that otherwise utilize leverage, the Independent Board Members noted, in particular, NAM's efforts in re-financing the preferred shares of such funds frozen by the collapse of the auction rate market and managing leverage during a period of rapid market declines, particularly for the non-equity funds. Such efforts included negotiating and maintaining the availability of bank loan facilities and other sources of credit used for investment purposes or to satisfy liquidity needs, liquidating portfolio securities during difficult times to meet leverage ratios, and seeking alternative forms of debt and other leverage that may over time reduce financing costs associated with ARPs and enable the funds that have issued ARPs to restore liquidity to ARP holders. The Independent Board Members also noted Nuveen's continued commitment and efforts to keep investors and financial advisers

74 Nuveen Investments

informed as to its progress with the ARPs through, among other things, conference calls, emails, press releases, information posted on its website, and telephone calls and in-person meetings with financial advisers. In addition to the foregoing, the Independent Board Members also noted the additional services that NAM or its affiliates provide to closed-end funds, including, in particular, Nuveen's continued commitment to supporting the secondary market for the common shares of its closed-end funds through a variety of programs designed to raise investor and analyst awareness and understanding of closed-end funds. These efforts include maintaining an investor relations program to provide timely information and education to financial advisers and investors; providing advertising and marketing for the closed-end funds; maintaining websites; and providing educational seminars.

As part of their review, the Independent Board Members also evaluated the background, experience and track record of NAM's investment personnel. In this regard, the Independent Board Members considered any changes in the personnel, and the impact on the level of services provided to the Funds, if any. The Independent Board Members also reviewed information regarding portfolio manager compensation arrangements to evaluate NAM's ability to attract and retain high quality investment personnel, preserve stability, and reward performance but not provide an incentive for taking undue risks.

In addition to advisory services, the Independent Board Members considered the quality of administrative services provided by NAM and its affiliates including product management, fund administration, oversight of service providers, shareholder services, administration of Board relations, regulatory and portfolio compliance and legal support. Given the importance of compliance, the Independent Board Members considered NAM's compliance program, including the report of the chief compliance officer regarding the Funds' compliance policies and procedures.

Based on their review, the Independent Board Members found that, overall, the nature, extent and quality of services provided (and expected to be provided) to the respective Funds under the Advisory Agreements were satisfactory.

#### B. THE INVESTMENT PERFORMANCE OF THE FUNDS AND NAM

The Board considered the investment performance of each Fund, including the Fund's historic performance as well as its performance compared to funds with similar investment objectives (the "Performance Peer Group") based on data provided by an independent provider of mutual fund data as well as recognized and/or customized benchmarks (as applicable). The Independent Board Members reviewed performance information including, among other things, total return information compared with the Fund's Performance Peer Group and recognized and/or customized benchmarks (as applicable) for the quarter-, one-, three- and five-year periods (as applicable) ending December 31, 2008 and for the same periods (as applicable) ending March 31, 2009. The Independent Board Members also reviewed performance information of the Nuveen municipal funds managed by NAM in the aggregate ranked by peer group and

Nuveen Investments 75

#### Annual Investment Management Agreement Approval Process (continued)

the performance of such funds, in the aggregate, relative to their benchmark. This information supplemented the Fund performance information provided to the Board at each of its quarterly meetings.

In comparing a fund's performance with that of its Performance Peer Group, the Independent Board Members took into account that the closest Performance Peer Group in certain instances may not adequately reflect the respective fund's investment objectives and strategies thereby hindering a meaningful comparison of the fund's performance with that of the Performance Peer Group. The Independent Board Members further considered the performance of the Funds in the context of the volatile market conditions during the past year, and their impact on various asset classes and the portfolio management of the Funds.

Based on their review and factoring in the severity of market turmoil in 2008, the Independent Board Members determined that each Fund's investment performance over time had been satisfactory.

#### C. FEES, EXPENSES AND PROFITABILITY

##### 1. FEES AND EXPENSES

The Board evaluated the management fees and expenses of each Fund reviewing, among other things, such Fund's gross management fees, net management fees and total expense ratios (before and after expense reimbursements and/or waivers) in absolute terms as well as compared to the fee and expenses of a comparable universe of unaffiliated funds based on data provided by an independent fund data provider (the "Peer Universe") and in certain cases, to a more focused subset of funds in the Peer Universe (the "Peer Group").

The Independent Board Members further reviewed data regarding the construction of the applicable Peer Universe and Peer Group. In reviewing the comparisons of fee and expense information, the Independent Board Members took into account that in certain instances various factors such as the asset level of a fund relative to peers, the size and particular composition of the Peer Universe or Peer Group, the investment objectives of the peers, expense anomalies, changes in the funds comprising the Peer Universe or Peer Group from year to year, levels of reimbursement and the timing of information used may impact the comparative data, thereby limiting the ability to make a meaningful comparison. In addition, the Independent Board Members also considered, among other things, the differences in the use and type of leverage compared to the peers. The Independent Board Members also considered the differences in the states reflected in the respective Peer Group. In reviewing the fee schedule for a Fund, the Independent Board Members also considered the fund-level and complex-wide breakpoint schedules (described in further detail below) and any fee waivers and reimbursements provided by Nuveen (applicable, in particular, for certain closed-end funds launched since 1999).

##### 76 Nuveen Investments

Based on their review of the fee and expense information provided, the Independent Board Members determined that each Fund's management fees and net total expense ratio were reasonable in light of the nature, extent and quality of services provided to the Fund.

##### 2. COMPARISONS WITH THE FEES OF OTHER CLIENTS

The Independent Board Members further reviewed information regarding the nature of services and fee rates offered by NAM to other clients. Such other clients include NAM's municipal separately managed accounts. In evaluating the comparisons of fees, the Independent Board Members noted that the fee rates charged to the Funds and other clients vary, among other things, because of the different services involved and the

additional regulatory and compliance requirements associated with registered investment companies, such as the Funds. Accordingly, the Independent Board Members considered the differences in the product types, including, but not limited to, the services provided, the structure and operations, product distribution and costs thereof, portfolio investment policies, investor profiles, account sizes and regulatory requirements. The Independent Board Members noted, in particular, that the range of services provided to the Funds (as discussed above) is much more extensive than that provided to separately managed accounts. Given the inherent differences in the products, particularly the extensive services provided to the Funds, the Independent Board Members believe such facts justify the different levels of fees.

### 3. PROFITABILITY OF NUVEEN

In conjunction with its review of fees, the Independent Board Members also considered the profitability of Nuveen for its advisory activities (which incorporated Nuveen's wholly-owned affiliated sub-advisers other than Winslow Capital) and its financial condition. The Independent Board Members reviewed the revenues and expenses of Nuveen's advisory activities for the last two years, the allocation methodology used in preparing the profitability data and an analysis of the key drivers behind the changes in revenues and expenses that impacted profitability in 2008. In addition, the Independent Board Members reviewed information regarding the financial results of Nuveen for 2008 based on its Form 8-K filed on March 31, 2009. The Independent Board Members noted this information supplemented the profitability information requested and received during the year to help keep them apprised of developments affecting profitability (such as changes in fee waivers and expense reimbursement commitments). In this regard, the Independent Board Members noted that they had also appointed an Independent Board Member as a point person to review and keep them apprised of changes to the profitability analysis and/or methodologies during the year. The Independent Board Members also considered Nuveen's revenues for advisory activities, expenses, and profit margin compared to that of various unaffiliated management firms with similar amounts of

Nuveen Investments 77

#### Annual Investment Management Agreement Approval Process (continued)

assets under management and relatively comparable asset composition prepared by Nuveen.

In reviewing profitability, the Independent Board Members recognized the subjective nature of determining profitability which may be affected by numerous factors including the allocation of expenses. Further, the Independent Board Members recognized the difficulties in making comparisons as the profitability of other advisers generally is not publicly available and the profitability information that is available for certain advisers or management firms may not be representative of the industry and may be affected by, among other things, the adviser's particular business mix, capital costs, types of funds managed and expense allocations. Notwithstanding the foregoing, the Independent Board Members reviewed Nuveen's methodology and assumptions for allocating expenses across product lines to determine profitability. In reviewing profitability, the Independent Board Members recognized Nuveen's investment in its fund business.

Based on their review, the Independent Board Members concluded that Nuveen's level of profitability for its advisory activities was reasonable

in light of the services provided.

In evaluating the reasonableness of the compensation, the Independent Board Members also considered other amounts paid to NAM by the Funds as well as any indirect benefits (such as soft dollar arrangements, if any) NAM and its affiliates receive, or are expected to receive, that are directly attributable to the management of the Funds, if any. See Section E below for additional information on indirect benefits NAM may receive as a result of its relationship with the Funds. Based on their review of the overall fee arrangements of each Fund, the Independent Board Members determined that the advisory fees and expenses of the respective Fund were reasonable.

D. ECONOMIES OF SCALE AND WHETHER FEE LEVELS REFLECT THESE ECONOMIES OF SCALE

With respect to economies of scale, the Independent Board Members have recognized the potential benefits resulting from the costs of a fund being spread over a larger asset base, although economies of scale are difficult to measure and predict with precision, particularly on a fund-by-fund basis. One method to help ensure the shareholders share in these benefits is to include breakpoints in the advisory fee schedule. Generally, management fees for funds in the Nuveen complex are comprised of a fund-level component and a complex-level component, subject to certain exceptions. Accordingly, the Independent Board Members reviewed and considered the applicable fund-level breakpoints in the advisory fee schedules that reduce advisory fees as asset levels increase. In this regard, the Independent Board Members noted that although closed-end funds may from time-to-time make additional share offerings, the growth of their assets will occur primarily through the appreciation of such funds' investment portfolio.

78 Nuveen Investments

While economies of scale result when costs can be spread over a larger asset base, the Independent Board Members also recognized that the asset levels generally declined in 2008 due to, among other things, the market downturn. Accordingly, for funds with a reduction in assets under management, advisory fee levels may have increased as breakpoints in the fee schedule were no longer surpassed.

In addition to fund-level advisory fee breakpoints, the Board also considered the Funds' complex-wide fee arrangement. Pursuant to the complex-wide fee arrangement, the fees of the funds in the Nuveen complex generally are reduced as the assets in the fund complex reach certain levels. The complex-wide fee arrangement seeks to provide the benefits of economies of scale to fund shareholders when total fund complex assets increase, even if assets of a particular fund are unchanged or have decreased. The approach reflects the notion that some of Nuveen's costs are attributable to services provided to all its funds in the complex and therefore all funds benefit if these costs are spread over a larger asset base. Generally, the complex-wide pricing reduces Nuveen's revenue because total complex fund assets have consistently grown in prior years. As noted, however, total fund assets declined in 2008 resulting in a smaller downward adjustment of revenues due to complex-wide pricing compared to the prior year.

Based on their review, the Independent Board Members concluded that the breakpoint schedules and complex-wide fee arrangement were acceptable and reflect economies of scale to be shared with shareholders when assets under management increase.

E. INDIRECT BENEFITS

In evaluating fees, the Independent Board Members received and considered information regarding potential "fall out" or ancillary benefits NAM or its affiliates may receive as a result of its relationship with each Fund. In this regard, the Independent Board Members considered revenues received by affiliates of NAM for serving as agent at Nuveen's trading desk.

In addition to the above, the Independent Board Members considered whether NAM received any benefits from soft dollar arrangements whereby a portion of the commissions paid by a Fund for brokerage may be used to acquire research that may be useful to NAM in managing the assets of the Funds and other clients. The Independent Board Members noted that NAM does not currently have any soft dollar arrangements; however, to the extent certain bona fide agency transactions that occur on markets that traditionally trade on a principal basis and riskless principal transactions are considered as generating "commissions," NAM intends to comply with the applicable safe harbor provisions.

Based on their review, the Independent Board Members concluded that any indirect benefits received by NAM as a result of its relationship with the Funds were reasonable and within acceptable parameters.

Nuveen Investments 79

Annual Investment Management Agreement Approval Process (continued)

F. OTHER CONSIDERATIONS

The Independent Board Members did not identify any single factor discussed previously as all-important or controlling. The Board Members, including the Independent Board Members, unanimously concluded that the terms of the Advisory Agreements are fair and reasonable, that NAM's fees are reasonable in light of the services provided to each Fund and that the Advisory Agreements be renewed.

80 Nuveen Investments

Reinvest Automatically Easily and Conveniently

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 greater of the net asset value or 95% of 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. 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 on the last business day immediately prior to the purchase date. 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

Nuveen Investments 81

#### Reinvest Automatically Easily and Conveniently (continued)

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.

82 Nuveen Investments

Glossary of Terms Used in this Report

- o AUCTION RATE BOND: An auction rate bond is a security whose interest payments are adjusted periodically through an auction process, which process typically also serves as a means for buying and selling the bond. Auctions that fail to attract enough buyers for all the shares offered for sale are deemed to have "failed," with current holders receiving a formula-based interest rate until the next scheduled auction.
- o 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 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.
- o 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.
- o INVERSE FLOATERS: Inverse floating rate securities, also known as inverse floaters, 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.

Nuveen Investments 83

Glossary of Terms Used in this Report (continued)

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



price.

- o NET ASSET VALUE (NAV): A Fund's NAV per common share is calculated by subtracting the liabilities of the Fund (including any Preferred shares issued in order to leverage the Fund) from its total assets and then dividing the remainder by the number of common shares outstanding. Fund NAVs are calculated at the end of each business day.
- o 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.
- o ZERO COUPON BOND: A zero coupon bond does not pay a regular interest coupon to its holders during the life of the bond. Tax-exempt income to the holder of the bond comes from accretion of the difference between the original purchase price of the bond at issuance and the par value of the bond at maturity and is effectively paid at maturity. The market prices of zero coupon bonds generally are more volatile than the market prices of bonds that pay interest periodically.

84 Nuveen Investments

Notes

Nuveen Investments 85

Notes

86 Nuveen Investments

Other Useful Information

BOARD OF DIRECTORS/TRUSTEES

John P. Amboian  
Robert P. Bremner  
Jack B. Evans  
William C. Hunter  
David J. Kundert  
William J. Schneider  
Judith M. Stockdale  
Carole E. Stone  
Terence J. Toth

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

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

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

## QUARTERLY PORTFOLIO OF INVESTMENTS AND PROXY VOTING INFORMATION

You may obtain (i) each Fund's quarterly portfolio of investments, (ii) information regarding how the Funds voted proxies relating to portfolio securities held during the twelve-month period ended June 30, 2009, and (iii) a description of the policies and procedures that the Funds used to determine how to vote proxies relating to portfolio securities 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 (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 100 F Street NE, Washington, D.C. 20549.

## CEO CERTIFICATION DISCLOSURE

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

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

## COMMON AND PREFERRED SHARE INFORMATION

Each Fund intends to repurchase and/or redeem shares of its own common or preferred stock in the future at such times and in such amounts as is deemed advisable. During the period covered by this report, the Funds repurchased and/or redeemed shares of their common and/or preferred stock as shown in the accompanying table.

Fund	Common Shares Repurchased	Preferred Shares Redeemed
NAZ	--	85
NFZ	2,500	56
NKR	800	75
NXE	1,600	144
NTX	--	158

Any future repurchases and/or redemptions will be reported to shareholders in the next annual or semi-annual report.

Nuveen Investments:  
Serving Investors for Generations

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.

Nuveen Investments is a global investment management firm that seeks to help secure the long-term goals of institutions and high net worth investors as well as the consultants and financial advisors who serve them. Nuveen Investments markets its growing range of specialized investment solutions under the high-quality brands of HydePark, NWQ, Nuveen, Santa Barbara, Symphony, Tradewinds and Winslow Capital. In total, the Company managed \$128 billion of assets on June 30, 2009.

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: [WWW.NUVEEN.COM/CEF](http://WWW.NUVEEN.COM/CEF)

- o Share prices
- o Fund details
- o Daily financial news
- o Investor education
- o Interactive planning tools

Distributed by  
Nuveen Investments, LLC  
333 West Wacker Drive  
Chicago, IL 60606  
[www.nuveen.com](http://www.nuveen.com)

It's not what you earn,  
it's what you keep. (R)

EAN-A-0709D

ITEM 2. CODE OF ETHICS.

As of the end of the period covered by this report, the registrant has adopted a code of ethics that applies to the registrant's principal executive officer,

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

principal financial officer, principal accounting officer or controller, or persons performing similar functions. There were no amendments to or waivers from the Code during the period covered by this report. The registrant has posted the code of ethics on its website at [www.nuveen.com/CEF/Info/Shareholder](http://www.nuveen.com/CEF/Info/Shareholder). (To view the code, click on Fund Governance and then click on Code of Conduct.)

### ITEM 3. AUDIT COMMITTEE FINANCIAL EXPERT.

The registrant's Board of Directors or Trustees ("Board") determined that the registrant has at least one "audit committee financial expert" (as defined in Item 3 of Form N-CSR) serving on its Audit Committee. The registrant's audit committee financial expert is Jack B. Evans, who is "independent" for purposes of Item 3 of Form N-CSR.

Mr. Evans was formerly President and Chief Operating Officer of SCI Financial Group, Inc., a full service registered broker-dealer and registered investment adviser ("SCI"). As part of his role as President and Chief Operating Officer, Mr. Evans actively supervised the Chief Financial Officer (the "CFO") and actively supervised the CFO's preparation of financial statements and other filings with various regulatory authorities. In such capacity, Mr. Evans was actively involved in the preparation of SCI's financial statements and the resolution of issues raised in connection therewith. Mr. Evans has also served on the audit committee of various reporting companies. At such companies, Mr. Evans was involved in the oversight of audits, audit plans, and the preparation of financial statements. Mr. Evans also formerly chaired the audit committee of the Federal Reserve Bank of Chicago.

### ITEM 4. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

#### Nuveen Arizona Dividend Advantage Municipal Fund 3

The following tables show the amount of fees that Ernst & Young LLP, the Fund's auditor, billed to the Fund during the Fund's last two full fiscal years. For engagements with Ernst & Young LLP the Audit Committee approved in advance all audit services and non-audit services that Ernst & Young LLP provided to the Fund, except for those non-audit services that were subject to the pre-approval exception under Rule 2-01 of Regulation S-X (the "pre-approval exception"). The pre-approval exception for services provided directly to the Fund waives the pre-approval requirement for services other than audit, review or attest services if: (A) the aggregate amount of all such services provided constitutes no more than 5% of the total amount of revenues paid by the Fund to its accountant during the fiscal year in which the services are provided; (B) the Fund did not recognize the services as non-audit services at the time of the engagement; and (C) the services are promptly brought to the Audit Committee's attention, and the Committee (or its delegate) approves the services before the audit is completed.

The Audit Committee has delegated certain pre-approval responsibilities to its Chairman (or, in his absence, any other member of the Audit Committee).

#### SERVICES THAT THE FUND'S AUDITOR BILLED TO THE FUND

FISCAL YEAR ENDED	AUDIT FEES BILLED TO FUND (1)	AUDIT-RELATED FEES BILLED TO FUND (2)	TAX BILLED TO FUND (3)
July 31, 2009	\$ 9,229	\$ 0	\$ 0
Percentage approved	0%	0%	0%

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

pursuant to  
pre-approval  
exception

July 31, 2008	\$ 9,182	\$ 0	\$ 50
Percentage approved pursuant to pre-approval exception	0%	0%	0

- (1) "Audit Fees" are the aggregate fees billed for professional services for the audit of the Fund's annual financial statements and services provided in connection with statutory and regulatory filings or engagements.
- (2) "Audit Related Fees" are the aggregate fees billed for assurance and related services reasonably related to the performance of the audit or review of financial statements and are not reported under "Audit Fees."
- (3) "Tax Fees" are the aggregate fees billed for professional services for tax advice, tax compliance, and tax planning.
- (4) "All Other Fees" are the aggregate fees billed for products and services for agreed upon procedures engagements performed for leveraged funds.

SERVICES THAT THE FUND'S AUDITOR BILLED TO THE  
ADVISER AND AFFILIATED FUND SERVICE PROVIDERS

The following tables show the amount of fees billed by Ernst & Young LLP to Nuveen Asset Management ("NAM" or the "Adviser"), and any entity controlling, controlled by or under common control with NAM that provides ongoing services to the Fund ("Affiliated Fund Service Provider"), for engagements directly related to the Fund's operations and financial reporting, during the Fund's last two full fiscal years.

The tables also show the percentage of fees subject to the pre-approval exception. The pre-approval exception for services provided to the Adviser and any Affiliated Fund Service Provider (other than audit, review or attest services) waives the pre-approval requirement if: (A) the aggregate amount of all such services provided constitutes no more than 5% of the total amount of revenues paid to Ernst & Young LLP by the Fund, the Adviser and Affiliated Fund Service Providers during the fiscal year in which the services are provided that would have to be pre-approved by the Audit Committee; (B) the Fund did not recognize the services as non-audit services at the time of the engagement; and (C) the services are promptly brought to the Audit Committee's attention, and the Committee (or its delegate) approves the services before the Fund's audit is completed.

FISCAL YEAR ENDED	AUDIT-RELATED FEES BILLED TO ADVISER AND AFFILIATED FUND SERVICE PROVIDERS	TAX FEES BILLED TO ADVISER AND AFFILIATED FUND SERVICE PROVIDERS
July 31, 2009	\$ 0	\$ 0

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

Percentage approved pursuant to pre-approval exception	0%	0%
-----	-----	-----
July 31, 2008	\$ 0	\$ 0
-----	-----	-----
Percentage approved pursuant to pre-approval exception	0%	0%
-----	-----	-----

NON-AUDIT SERVICES

The following table shows the amount of fees that Ernst & Young LLP billed during the Fund's last two full fiscal years for non-audit services. The Audit Committee is required to pre-approve non-audit services that Ernst & Young LLP provides to the Adviser and any Affiliated Fund Services Provider, if the engagement related directly to the Fund's operations and financial reporting (except for those subject to the pre-approval exception described above). The Audit Committee requested and received information from Ernst & Young LLP about any non-audit services that Ernst & Young LLP rendered during the Fund's last fiscal year to the Adviser and any Affiliated Fund Service Provider. The Committee considered this information in evaluating Ernst & Young LLP's independence.

FISCAL YEAR ENDED	TOTAL NON-AUDIT FEES BILLED TO FUND	TOTAL NON-AUDIT FEES BILLED TO ADVISER AND AFFILIATED FUND SERVICE PROVIDERS (ENGAGEMENTS RELATED DIRECTLY TO THE OPERATIONS AND FINANCIAL REPORTING OF THE FUND)	TO BI AFFI PR
July 31, 2009	\$ 850	\$ 0	
July 31, 2008	\$ 1,300	\$ 0	

"Non-Audit Fees billed to Fund" for both fiscal year ends represent "Tax Fees" and "All Other Fees" billed to Fund in their respective amounts from the previous table.

Audit Committee Pre-Approval Policies and Procedures. Generally, the Audit Committee must approve (i) all non-audit services to be performed for the Fund by the Fund's independent accountants and (ii) all audit and non-audit services to be performed by the Fund's independent accountants for the Affiliated Fund Service Providers with respect to operations and financial reporting of the Fund. Regarding tax and research projects conducted by the independent accountants for the Fund and Affiliated Fund Service Providers (with respect to operations and financial reports of the Fund) such engagements will be (i) pre-approved by the Audit Committee if they are expected to be for amounts greater than \$10,000; (ii) reported to the Audit Committee chairman for his verbal approval prior to engagement if they are expected to be for amounts under \$10,000 but greater than \$5,000; and (iii) reported to the Audit Committee at the next Audit Committee meeting if they are expected to be for an amount under

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

\$5,000.

## ITEM 5. AUDIT COMMITTEE OF LISTED REGISTRANTS.

The registrant's Board has a separately designated Audit Committee established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934, as amended (15 U.S.C. 78c(a)(58)(A)). The members of the audit committee are Robert P. Bremner, Jack B. Evans, Terence J. Toth, William J. Schneider and David J. Kundert.

## ITEM 6. SCHEDULE OF INVESTMENTS.

- a) See Portfolio of Investments in Item 1.
- b) Not applicable.

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

The registrant invests its assets primarily in municipal bonds and cash management securities. On rare occasions the registrant may acquire, directly or through a special purpose vehicle, equity securities of a municipal bond issuer whose bonds the registrant already owns when such bonds have deteriorated or are expected shortly to deteriorate significantly in credit quality. The purpose of acquiring equity securities generally will be to acquire control of the municipal bond issuer and to seek to prevent the credit deterioration or facilitate the liquidation or other workout of the distressed issuer's credit problem. In the course of exercising control of a distressed municipal issuer, NAM may pursue the registrant's interests in a variety of ways, which may entail negotiating and executing consents, agreements and other arrangements, and otherwise influencing the management of the issuer. NAM does not consider such activities proxy voting for purposes of Rule 206(4)-6 under the 1940 Act, but nevertheless provides reports to the registrant's Board on its control activities on a quarterly basis.

In the rare event that a municipal issuer were to issue a proxy or that the registrant were to receive a proxy issued by a cash management security, NAM would either engage an independent third party to determine how the proxy should be voted or vote the proxy with the consent, or based on the instructions, of the registrant's Board or its representative. A member of NAM's legal department would oversee the administration of the voting, and ensure that records were maintained in accordance with Rule 206(4)-6, reports were filed with the SEC on Form N-PX, and the results provided to the registrant's Board and made available to shareholders as required by applicable rules.

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

### THE PORTFOLIO MANAGER

The following individual has primary responsibility for the day-to-day implementation of the registrant's investment strategies:

NAME	FUND
Scott R. Romans	Nuveen Arizona Dividend Advantage Municipal Fund 3

Other Accounts Managed. In addition to managing the registrant, the portfolio manager is also primarily responsible for the day-to-day portfolio management of the following accounts:

PORTFOLIO MANAGER	TYPE OF ACCOUNT MANAGED	NUMBER OF ACCOUNTS	ASSETS*
-------------------	-------------------------	--------------------	---------

-----

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

Scott R. Romans	Registered Investment Company	29	\$5.412 billion
	Other Pooled Investment Vehicles	0	\$0
	Other Accounts	3	\$.213 million

\* Assets are as of July 31, 2009. None of the assets in these accounts are subject to an advisory fee based on performance.

Compensation. Each portfolio manager's compensation consists of three basic elements--base salary, cash bonus and long-term incentive compensation. The compensation strategy is to annually compare overall compensation to the market in order to create a compensation structure that is competitive and consistent with similar financial services companies. As discussed below, several factors are considered in determining each portfolio manager's total compensation. In any year these factors may include, among others, the effectiveness of the investment strategies recommended by the portfolio manager's investment team, the investment performance of the accounts managed by the portfolio manager, and the overall performance of Nuveen Investments, Inc. (the parent company of NAM). Although investment performance is a factor in determining the portfolio manager's compensation, it is not necessarily a decisive factor. The portfolio manager's performance is evaluated in part by comparing manager's performance against a specified investment benchmark. This fund-specific benchmark is a customized subset (limited to bonds in each Fund's specific state and with certain maturity parameters) of the S&P/Investortools Municipal Bond index, an index comprised of bonds held by managed municipal bond fund customers of Standard & Poor's Securities Pricing, Inc. that are priced daily and whose fund holdings aggregate at least \$2 million. As of September 30, 2009, the S&P/Investortools Municipal Bond index was comprised of 54,220 securities with an aggregate current market value of \$1,130 billion.

Base salary. Each portfolio manager is paid a base salary that is set at a level determined by NAM in accordance with its overall compensation strategy discussed above. NAM is not under any current contractual obligation to increase a portfolio manager's base salary.

Cash bonus. Each portfolio manager is also eligible to receive an annual cash bonus. The level of this bonus is based upon evaluations and determinations made by each portfolio manager's supervisors, along with reviews submitted by his peers. These reviews and evaluations often take into account a number of factors, including the effectiveness of the investment strategies recommended to the NAM's investment team, the performance of the accounts for which he serves as portfolio manager relative to any benchmarks established for those accounts, his effectiveness in communicating investment performance to stockholders and their representatives, and his contribution to the NAM's investment process and to the execution of investment strategies. The cash bonus component is also impacted by the overall performance of Nuveen Investments, Inc. in achieving its business objectives.

Long-term incentive compensation. In connection with the acquisition of Nuveen Investments, Inc., by a group of investors led by Madison Dearborn Partners in November 2007, certain employees, including portfolio managers, received profit interests in Nuveen's parent. These profit interests entitle the holders to participate in the appreciation in the value of Nuveen beyond the issue date and vest over five to seven years, or earlier in the case of a liquidity event. In addition, in July 2009, Nuveen Investments created and funded a trust, as part of a newly-established incentive program, which purchased shares of certain Nuveen Mutual Funds and awarded such shares, subject to vesting, to certain employees, including portfolio managers.

Material Conflicts of Interest. Each portfolio manager's simultaneous management of the registrant and the other accounts noted above may present actual or apparent conflicts of interest with respect to the allocation and aggregation of securities orders placed on behalf of the registrant and the other account. NAM,



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

however, believes that such potential conflicts are mitigated by the fact that the NAM has adopted several policies that address potential conflicts of interest, including best execution and trade allocation policies that are designed to ensure (1) that portfolio management is seeking the best price for portfolio securities under the circumstances, (2) fair and equitable allocation of investment opportunities among accounts over time and (3) compliance with applicable regulatory requirements. All accounts are to be treated in a non-preferential manner, such that allocations are not based upon account performance, fee structure or preference of the portfolio manager. In addition, NAM has adopted a Code of Conduct that sets forth policies regarding conflicts of interest.

Beneficial Ownership of Securities. As of July 31, 2009, the portfolio manager beneficially owned the following dollar range of equity securities issued by the registrant and other Nuveen Funds managed by NAM's municipal investment team.

NAME OF PORTFOLIO MANAGER	FUND	DOLLAR RANGE OF EQUITY SECURITIES BENEFICIALLY OWNED IN FUND	DOL RAN EQU SEC BEN OWN THE REM OF FUN MAN NAM MUN INV TEA
Scott R. Romans	Nuveen Arizona Dividend Advantage Municipal Fund 3	\$0	\$10

PORTFOLIO MANAGER BIO:

Scott R. Romans, PhD, joined Nuveen Investments in 2000 as a senior analyst covering higher education, charter schools and private secondary schools. In 2003, he was assigned management responsibility for several closed- and open-end municipal bond funds most of which are state funds covering California and other western states. He has been Vice President of NAM since 2004. Currently, he manages investments for 30 Nuveen-sponsored investment companies.

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

Period*	(a) TOTAL NUMBER OF SHARES (OR UNITS) PURCHASED	(b) AVERAGE PRICE PAID PER SHARE (OR UNIT)	(c) TOTAL NUMBER OF SHARES (OR UNITS) PURCHASED AS PART OF PUBLICLY ANNOUNCED PLANS OR PROGRAMS	(d) * MAXIMUM APPROXI SHARES BE PURC PROGRAM
AUGUST 7-31, 2008	0		0	305,000

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

SEPTEMBER 1-30, 2008	0		0	305,000
OCTOBER 1-31, 2008	0		0	305,000
NOVEMBER 1-30, 2009	0		0	305,000
DECEMBER 1-31, 2008	0		0	305,000
JANUARY 1-31, 2009	0		0	305,000
FEBRUARY 1-28, 2009	300	9.95	300	304,700
MARCH 1-31, 2009	1,300	9.51	1,300	303,400
APRIL 1-30, 2009	0		0	303,400
MAY 1-31, 2009	0		0	303,400
JUNE 1-30, 2009	0		0	303,400
JULY 1-31, 2009	0		0	303,400
TOTAL	1,600			

\* The registrant's repurchase program, which authorized the repurchase of 305,000 shares, was announced August 7, 2008. Any repurchases made by the registrant pursuant to the program were made through open-market transactions.

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. Letter or number the exhibits in the sequence indicated.

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

(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 because the code is posted on registrant's website at [www.nuveen.com/CEF/Info/Shareholder](http://www.nuveen.com/CEF/Info/Shareholder) and there were no amendments during the period covered by this report. (To view the code, click on Fund Governance and then Code of Conduct.)

(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/ Kevin J. McCarthy

-----  
Kevin J. McCarthy  
Vice President and Secretary

Date: October 8, 2009  
-----

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: October 8, 2009  
-----

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

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

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

Date: October 8, 2009  
-----