

NUVEEN ARIZONA DIVIDEND ADVANTAGE MUNICIPAL FUND 3
Form N-Q
June 29, 2005

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549**

FORM N-Q

QUARTERLY SCHEDULE OF PORTFOLIO HOLDINGS OF REGISTERED MANAGEMENT INVESTMENT COMPANY

Investment Company Act file number 811-21157

Nuveen Arizona Dividend Advantage Municipal Fund 3

(Exact name of registrant as specified in charter)

333 West Wacker Drive, Chicago, Illinois 60606

(Address of principal executive offices) (Zip code)

Jessica R. Droeger Vice President and Secretary

333 West Wacker Drive, Chicago, Illinois 60606

(Name and address of agent for service)

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

Date of fiscal year end: 07/31

Date of reporting period: 04/30/05

Form N-Q is to be used by management investment companies, other than small business investment companies registered on Form N-5 (§§ 239.24 and 274.5 of this chapter), to file reports with the Commission, not later than 60 days after the close of the first and third fiscal quarters, pursuant to rule 30b1-5 under the Investment Company Act of 1940 (17 CFR 270.30b1-5). The Commission may use the information provided on Form N-Q in its regulatory, disclosure review, inspection, and policymaking roles.

A registrant is required to disclose the information specified by Form N-Q, and the Commission will make this information public. A registrant is not required to respond to the collection of information contained in Form N-Q 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 the 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. § 3507.

Item 1. Schedule of Investments

Portfolio of Investments (Unaudited)

Nuveen Arizona Dividend Advantage Municipal Fund 3 (NXE)

April 30, 2005

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| Principal Amount (000) | Description ⁽¹⁾ |
|--|--|
| Consumer Staples - 4.2% (2.8% of Total Investments) | |
| \$ 1,880 | Puerto Rico, The Children's Trust Fund, Tobacco Settlement Asset-Backed Refunding Bonds, Series 2002, 5.375%, 5/15/33 |
| Education and Civic Organizations - 13.6% (9.1% of Total Investments) | |
| 1,250 | Arizona State University, System Revenue Bonds, Series 2005, 5.000%, 7/01/20 - AMBAC Insured |
| 1,000 | Arizona Student Loan Acquisition Authority, Student Loan Revenue Refunding Bonds, Senior Series 1999A-1, 5.750%, 5/01/15 (Alternative Minimum Tax) |
| 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 |
| 270 | Glendale Industrial Development Authority, Arizona, Revenue Bonds, Midwestern University, Series 1998A, 5.375%, 5/15/28 |
| 2,000 | University of Arizona, Certificates of Participation, Series 2002B, 5.125%, 6/01/20 - AMBAC Insured |
| Healthcare - 22.0% (14.6% of Total Investments) | |
| | Arizona Health Facilities Authority, Hospital System Revenue Bonds, Phoenix Children's Hospital, Series 1999A: |
| 750 | 6.125%, 11/15/22 |
| 520 | 6.250%, 11/15/29 |
| 1,000 | Arizona Health Facilities Authority, Hospital System Revenue Bonds, John C. Lincoln Health Network, Series 2000, 6.875%, 12/01/20 |
| 300 | Arizona Health Facilities Authority, Hospital Revenue Bonds, Catholic Healthcare West, Series 1999A, 6.625%, 7/01/20 |
| 625 | Arizona Health Facilities Authority, Revenue Bonds, Blood Systems Inc., Series 2004, 5.000%, 4/01/20 |
| 1,825 | Maricopa County Industrial Development Authority, Arizona, Health Facility Revenue Bonds, Catholic Healthcare West, Series 2004A, 5.375%, 7/01/23 |
| 2,000 | Maricopa County Industrial Development Authority, Arizona, Hospital Revenue Bonds, Mayo Clinic Hospital, Series 1998, 5.250%, 11/15/37 |
| 1,250 | Scottsdale Industrial Development Authority, Arizona, Hospital Revenue Bonds, Scottsdale Healthcare, Series 2001, 5.800%, 12/01/31 |
| 1,000 | Yavapai County Industrial Development Authority, Arizona, Hospital Revenue Bonds, Yavapai Regional Medical Center, Series 2003A, 6.000%, 8/01/33 |
| Housing/Multifamily - 4.5% (3.0% of Total Investments) | |
| 1,545 | Phoenix Industrial Development Authority, Arizona, GNMA Collateralized Multifamily Housing Revenue Bonds, Campaigne Place on Jackson, Series 2001, 5.600%, 6/20/21 (Alternative Minimum Tax) |
| 380 | Phoenix Industrial Development Authority, Arizona, GNMA Collateralized Multifamily Housing Revenue Bonds, Park Lee Apartments, Series 2004A, 5.050%, 10/20/44 (Alternative Minimum Tax) |

Industrials - 2.1% (1.5% of Total Investments)

945 Yavapai County Industrial Development Authority, Arizona, Solid Waste Disposal Revenue Bonds, Waste Management Inc. Project, Series 2003B, 4.450%, 3/01/28 (Alternative Minimum Tax) (Mandatory put 3/01/08)

Tax Obligation/General - 21.0% (14.1% of Total Investments)

660 Chandler, Arizona, General Obligation Bonds, Series 2002, 5.000%, 7/01/18
 2,250 DC Ranch Community Facilities District, Scottsdale, Arizona, General Obligation Bonds, Series 2002, 5.000%, 7/15/27 - AMBAC Insured
 1,930 Glendale, Arizona, General Obligation Refunding Bonds, Series 2002, 5.000%, 7/01/19
 1,000 Maricopa County Unified School District 11, Peoria, Arizona, General Obligation Refunding Bonds, Series 2002, 5.000%, 7/01/15 - FSA Insured
 1,575 Maricopa County Union High School District 210, Phoenix, Arizona, General Obligation Bonds, Series 2004A, 5.000%, 7/01/20 - FSA Insured
 940 Tucson, Arizona, General Obligation Bonds, Series 2005, 5.000%, 7/01/20 - FGIC Insured
 440 Tucson, Arizona, General Obligation Bonds, Series 2001B, 5.000%, 7/01/20

Tax Obligation/Limited - 43.9% (29.3% of Total Investments)

2,000 Arizona School Facilities Board, School Improvement Revenue Bonds, Series 2002, 5.250%, 7/01/20
 3,000 Arizona State Transportation Board, Highway Revenue Refunding Bonds, Series 2002A, 5.250%, 7/01/18
 1,000 Arizona State Transportation Board, Highway Revenue Bonds, Series 2002B, 5.250%, 7/01/22
 2,660 Arizona Tourism and Sports Authority, Tax Revenue Bonds, Multipurpose Stadium Facility Project, Series 2003A, 5.375%, 7/01/20 - MBIA Insured
 376 Estrella Mountain Ranch Community Facilities District, Goodyear, Arizona, Special Assessment Lien Bonds, Series 2001A, 7.875%, 7/01/25
 800 Goodyear Community Facilities Utility District 1, Arizona, General Obligation Bonds, Series 2003, 5.350%, 7/15/28 - ACA Insured
 2,000 Mohave County, Arizona, Certificates of Participation, Series 2004, 5.250%, 7/01/19 - AMBAC Insured
 540 Pima County Industrial Development Authority, Arizona, Charter School Revenue Bonds, Noah Webster Basic Schools Inc., Series 2004, 6.000%, 12/15/24
 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
 2,770 Tempe, Arizona, Excise Tax Revenue Refunding Bonds, Series 2003, 5.000%, 7/01/22
 565 Tucson Industrial Development Authority, Arizona, Charter School Revenue Bonds, Arizona Agribusiness and Equine Center Charter School, Series 2004A, 6.125%, 9/01/34
 1,250 Vistancia Community Facilities District, Arizona, Restricted General Obligation Bonds, Series 2005, 5.750%, 7/15/24

Transportation - 13.5% (9.0% of Total Investments)

1,000 Phoenix, Arizona, Civic Improvement Corporation, Senior Lien Airport Revenue Bonds, Series 2002B: 5.750%, 7/01/16 (Alternative Minimum Tax) - FGIC Insured
 2,300 5.250%, 7/01/21 (Alternative Minimum Tax) - FGIC Insured
 2,450 Tucson Airport Authority Inc., Arizona, Revenue Refunding Bonds, Series 2001B, 5.000%, 6/01/20

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(Alternative Minimum Tax) - AMBAC Insured

U.S. Guaranteed * - 5.1% (3.4% of Total Investments)**

2,000 Arizona State University, System Revenue Bonds, Series 2002, 5.750%, 7/01/27 (Pre-refunded to 7/01/12) - FGIC Insured

Utilities - 10.0% (6.7% 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

1,660 Puerto Rico Electric Power Authority, Power Revenue Bonds, Series 2005RR, 5.000%, 7/01/26 - XLCA Insured

Salt River Project Agricultural Improvement and Power District, Arizona, Electric System Revenue Bonds, Series 2002B:

360 5.000%, 1/01/22

1,000 5.000%, 1/01/31

Water and Sewer - 9.7% (6.5% of Total Investments)

650 Arizona Water Infrastructure Finance Authority, Water Quality Revenue Bonds, Series 2004A, 5.000%, 10/01/22

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

1,000 Phoenix Civic Improvement Corporation, Arizona, Junior Lien Wastewater System Revenue Refunding Bonds, Series 2001, 5.125%, 7/01/21 - FGIC Insured

2,000 Phoenix Civic Improvement Corporation, Arizona, Junior Lien Water System Revenue Bonds, Series 2002, 5.000%, 7/01/18 - FGIC Insured

\$ 62,751 Total Long-Term Investments (cost \$64,802,941) - 149.6%

Other Assets Less Liabilities - (0.6)%

Preferred Shares, at Liquidation Value - (49.0)%

Net Assets Applicable to Common Shares - 100%

Forward Swap Contracts outstanding at April 30, 2005:

Agreement with Goldman Sachs dated December 6, 2004, to pay semi-annually the notional amount multiplied by 5.324% (annualized)

and receive quarterly the notional amount multiplied by the three-month USD-LIBOR (United States Dollar-London Inter-Bank Offered Rates).

\$1

Agreement with JP Morgan dated January 11, 2005, to pay semi-annually the notional amount multiplied by 5.235% (annualized) and receive quarterly the notional amount multiplied by the three-month USD-LIBOR (United States Dollar-London Inter-Bank Offered Rates).

Agreement with Merrill Lynch dated February 14, 2005, to pay semi-annually the notional amount multiplied by 4.886% (annualized) and receive quarterly the notional amount multiplied by the three-month USD-LIBOR (United States Dollar-London Inter-Bank Offered Rates).

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- (1) All percentages shown in the Portfolio of Investments are based on net assets applicable to Common shares unless otherwise noted.
- (2) Effective date represents the date on which both the Fund and counterparty commence interest payment accruals on each forward swap contract.
 - * Optional Call Provisions: Dates (month and year) and prices of the earliest optional call or redemption. There may be other call provisions at varying prices at later dates.
 - ** Ratings: Using the higher of Standard & Poor's or Moody's rating.
 - *** Securities are backed by an escrow or trust containing sufficient U.S. Government or U.S. Government agency securities which ensures the timely payment of principal and interest.
- N/R Investment is not rated.

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 income on taxable market discount securities and timing differences in recognizing certain gains and losses on security transactions.

At April 30, 2005, the cost of investments was \$64,801,635

Gross unrealized appreciation and gross unrealized depreciation of investments at April 30, 2005, were as follows:

Gross unrealized:

Appreciation

Depreciation

Net unrealized appreciation of investments

Item 2. 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 Rule 13a-15(b) or 15d-15(b) under the Securities Exchange Act of 1934 (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 registrant's last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the registrant's internal control over financial reporting.

Item 3. Exhibits.

File as exhibits as part of this Form 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)), exactly as set forth below: EX-99 CERT Attached hereto.

SIGNATURES

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

(Registrant) Nuveen Arizona Dividend Advantage Municipal Fund 3

By (Signature and Title)* /s/ Jessica R. Droeger--Vice President and Secretary

Date 06/29/05

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--Chief Administrative Officer (principal executive officer)

Date 06/29/05

By (Signature and Title)* /s/ Stephen D. Foy--Vice President and Controller (principal financial officer)

Date 06/29/05

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