

NUVEEN ARIZONA DIVIDEND ADVANTAGE MUNICIPAL FUND 3
Form N-Q
December 30, 2008

**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)

Nuveen Investments

333 West Wacker Drive, Chicago, Illinois 60606

(Address of principal executive offices) (Zip code)

Kevin J. McCarthy 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: 7/31

Date of reporting period: 10/31/08

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)

October 31, 2008

Principal

Amount (000) Description (1)

Consumer Staples □ 1.1% (0.7% of Total Investments)

\$ 530 Puerto Rico, The Children's Trust Fund, Tobacco Settlement Asset-Backed Refunding Bonds, Series 2002, 5.375%, 5/15/33

Education and Civic Organizations □ 16.5% (10.3% of Total Investments)

690 Arizona Higher Education Loan Authority, Student Loan Revenue Bonds, Series 2007B, Adjustable Rate, 2.295%, 11/01/41 (4)
 1,250 Arizona State University, System Revenue Bonds, Series 2005, 5.000%, 7/01/20 □ AMBAC Insured
 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
 540 Pima County Industrial Development Authority, Arizona, Charter School Revenue Bonds, Noah Webster Basic Schools Inc., Series 2004, 6.000%, 12/15/24
 565 Tucson Industrial Development Authority, Arizona, Charter School Revenue Bonds, Arizona Agribusiness and Equine Center Charter School, Series 2004A, 6.125%, 9/01/34
 2,000 University of Arizona, Certificates of Participation, Series 2002B, 5.125%, 6/01/20 □ AMBAC Insured

6,175 Total Education and Civic Organizations

Health Care □ 31.1% (19.6% of Total Investments)

1,015 Arizona Health Facilities Authority, Hospital Revenue Bonds, Banner Health Systems, Series 2007A, 5.000%, 1/01/25
 620 Arizona Health Facilities Authority, Hospital Revenue Bonds, Banner Health Systems, Series 2007B, 3.411%, 1/02/37
 2,390 Arizona Health Facilities Authority, Hospital Revenue 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
 475 Glendale Industrial Development Authority, Arizona, Revenue Bonds, John C. Lincoln Health Network, Series 2005B, 5.000%, 12/01/37
 785 Glendale Industrial Development Authority, Arizona, Revenue Bonds, John C. Lincoln Health Network, Series 2007, 5.000%, 12/01/42
 1,825 Maricopa County Industrial Development Authority, Arizona, Health Facility Revenue Bonds, Catholic Healthcare West, Series 2004A, 5.375%, 7/01/23
 1,985 Maricopa County Industrial Development Authority, Arizona, Health Facility Revenue Bonds, Catholic Healthcare West, Series 2007A, 5.250%, 7/01/32
 2,000 Maricopa County Industrial Development Authority, Arizona, Hospital Revenue Bonds, Mayo Clinic Hospital, Series 1998, 5.250%, 11/15/37
 270 Maricopa County, Arizona, Hospital Revenue Bonds, Sun Health Corporation, Series 2005, 5.000%, 4/01/16
 1,000 Yavapai County Industrial Development Authority, Arizona, Hospital Revenue Bonds, Yavapai Regional Medical Center, Series 2003A, 6.000%, 8/01/33

12,990 Total Health Care

Housing/Multifamily □ 4.9% (3.1% 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

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

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)

1,925 Total Housing/Multifamily

Housing/Single Family □ 7.9% (5.0% of Total Investments)

1,170 The Industrial Development Authority of The City of Tucson, Arizona, Tax-Exempt Single Family Mortgage Revenue Bonds, Series 2007A-1, 5.100%, 7/01/38

2,130 Tucson and Pima County Industrial Development Authority, Arizona, Joint Single Family Mortgage Revenue Bonds, Series 2007B, 5.350%, 6/01/47 (Alternative Minimum Tax)

3,300 Total Housing/Single Family

Tax Obligation/General □ 2.7% (1.7% of Total Investments)

1,000 Pinal County Unified School District 1, Florence, Arizona, General Obligation Bonds, Series 2008C, 5.250%, 7/01/28

Tax Obligation/Limited □ 33.7% (21.2% of Total Investments)

150 Centerra Community Facilities District, Goodyear, Arizona, General Obligation Bonds, Series 2005, 5.500%, 7/15/29

2,250 DC Ranch Community Facilities District, Scottsdale, Arizona, General Obligation Bonds, Series 2002, 5.000%, 7/15/27 □ AMBAC Insured

Estrella Mountain Ranch Community Facilities District, Arizona, Special Assessment Bonds, Montecito Assessment District, Series 2007:

254 5.700%, 7/01/27

155 5.800%, 7/01/32

303 Estrella Mountain Ranch Community Facilities District, Goodyear, Arizona, Special Assessment Lien Bonds, Series 2001A, 7.875%, 7/01/25

525 Greater Arizona Development Authority, Infrastructure Revenue Bonds, Series 2006A, 5.000%, 8/01/23 □ MBIA Insured

785 Marana, Arizona, Tangerine Farms Road Improvement District Revenue Bonds, Series 2006, 4.600%, 1/01/26

290 Marley Park Community Facilities District, City of Surprise, Arizona, Limited Tax General Obligation Bonds, Series 2007, 6.100%, 7/15/32

490 Merrill Ranch Community Facilities District 1, Florence, Arizona, General Obligation Bonds, Series 2008A, 7.400%, 7/15/33

2,000 Mohave County, Arizona, Certificates of Participation, Series 2004, 5.250%, 7/01/19 □ AMBAC Insured

640 Palm Valley Community Facility District 3, Goodyear, Arizona, General Obligation Bonds, Series 2006, 5.300%, 7/15/31

425 Palm Valley Community Facility District 3, Goodyear, Arizona, Limited Tax General Obligation Bonds, Series 2007, 5.800%, 7/15/32

160 Parkway Community Facilities District 1, Prescott Valley, Arizona, General Obligation Bonds, Series 2006, 5.350%, 7/15/31

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

1,130 San Luis Civic Improvement Corporation, Arizona, Municipal Facilities Excise Tax Revenue

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

	Bonds, Series 2005, 5.000%, 7/01/25 ☐ SYNCORA GTY Insured
665	Tartesso West Community Facility District, Buckeye, Arizona, Limited Tax General Obligation Bonds, Series 2007, 5.900%, 7/15/32
1,250	Vistancia Community Facilities District, Arizona, Restricted General Obligation Bonds, Series 2005, 5.750%, 7/15/24
665	Watson Road Community Facilities District, Arizona, Special Assessment Revenue Bonds, Series 2005, 6.000%, 7/01/30
425	Westpark Community Facilities District, Buckeye, Arizona, General Obligation Tax Increment Bonds Series 2006, 5.250%, 7/15/31

13,812 Total Tax Obligation/Limited

Transportation ☐ 14.6% (9.2% 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)
2,300	5.250%, 7/01/21 ☐ FGIC Insured (Alternative Minimum Tax)
2,450	Tucson Airport Authority Inc., Arizona, Revenue Refunding Bonds, Series 2001B, 5.000%, 6/01/20 ☐ AMBAC Insured (Alternative Minimum Tax)

5,750 Total Transportation

U.S. Guaranteed ☐ 24.1% (15.1% 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)
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)
	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)
520	6.250%, 11/15/29 (Pre-refunded 11/15/09)
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
1,250	Scottsdale Industrial Development Authority, Arizona, Hospital Revenue Bonds, Scottsdale Healthcare, Series 2001, 5.800%, 12/01/31 (Pre-refunded 12/01/11)
2,770	Tempe, Arizona, Excise Tax Revenue Refunding Bonds, Series 2003, 5.000%, 7/01/22 (Pre-refunded 7/01/13)

7,765 Total U.S. Guaranteed

Utilities ☐ 10.0% (6.3% 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 ☐ SYNCORA GTY Insured
270	Salt River Project Agricultural Improvement and Power District, Arizona, Electric System Revenue Bonds, Series 2002B, 5.000%, 1/01/22
1,165	Salt Verde Financial Corporation, Arizona, Senior Gas Revenue Bonds, Series 2007,

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

5.000%, 12/01/37

4,345 Total Utilities

Water and Sewer □ 12.5% (7.8% of Total Investments)

- 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
- Surprise Municipal Property Corporation, Arizona, Wastewater System Revenue Bonds, Series 2007:
 - 425 4.700%, 4/01/22
 - 490 4.900%, 4/01/32
- 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)

4,650 Total Water and Sewer

\$ 62,242 Total Investments (cost \$62,456,291) □ 159.1%

Other Assets Less Liabilities □ 4.2%

Preferred Shares, at Liquidation Value □ (63.3)% (6)

Net Assets Applicable to Common Shares □ 100%

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

- (1) All percentages shown in the Portfolio of Investments are based on net assets applicable to Common shares unless otherwise noted.
 - (2) Optional Call Provisions: Dates (month and year) and prices of the earliest optional call or redemption. There may be other call provisions at varying prices at later dates. Certain mortgage-backed securities may be subject to periodic principal paydowns.
 - (3) Ratings: Using the higher of Standard & Poor's 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.
The Portfolio of Investments may reflect the ratings on certain bonds insured by ACA, AGC, AMBAC, CIFG, FGIC, FSA, MBIA, RAAI and SYNCORA as of October 31, 2008. Subsequent of October 31, 2008, and during the period this Portfolio of Investments was prepared, there may have been reductions to the ratings of certain bonds resulting from changes to the ratings of the underlying insurers both during the period and after period end. Such reductions would likely reduce the effective rating of many of the bonds insured by the insurer or insurers presented at period end.
 - (4) Investment valued at fair value using methods determined in good faith by, or at the discretion of, the Board of Trustees.
 - (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 39.8%.
- N/R Not rated.

Fair Value Measurements

During the current fiscal period, the Fund 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 the 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).

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 the Fund's fair value measurements as of October 31, 2008:

	Level 1	Level 2	Level 3	Total
Investments	\$ □	\$54,776,019	\$468,336	\$55,244,355

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

**Level 3
Investments**

Balance as of July 31, 2008	\$352,949
Gains (losses):	
Net realized gains (losses)	□
Net change in unrealized appreciation (depreciation)	115,387
Net purchases at cost (sales at proceeds)	□
Net discounts (premiums)	□
Net transfers in to (out of) at end of period fair value	□
Balance as of October 31, 2008	\$468,336

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 and timing differences in recognizing certain gains and losses on investment transactions. 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 value of the Fund.

At October 31, 2008, the cost of investments was \$62,450,956.

Gross unrealized appreciation and gross unrealized depreciation of investments at October 31, 2008, were as follows:

Gross unrealized:	
Appreciation	\$ 506,371
Depreciation	(7,712,972)
Net unrealized appreciation (depreciation) of investments	\$(7,206,601)

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: See 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/ Kevin J. McCarthy
Kevin J. McCarthy
Vice President and Secretary

Date December 30, 2008

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 December 30, 2008

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

Date December 30, 2008