

NUVEEN ARIZONA DIVIDEND ADVANTAGE MUNICIPAL FUND 3  
Form N-CSR  
October 06, 2006

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  
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Nuveen Arizona Dividend Advantage Municipal Fund 3  
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(Exact name of registrant as specified in charter)

Nuveen Investments  
333 West Wacker Drive  
Chicago, IL 60606  
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(Address of principal executive offices) (Zip code)

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

(Name and address of agent for service)

Registrant's telephone number, including area code: (312) 917-7700  
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Date of fiscal year end: July 31  
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Date of reporting period: July 31, 2006  
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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.

ANNUAL REPORT July 31, 2006

Nuveen Investments  
Municipal Exchange-Traded  
Closed-End Funds

NUVEEN ARIZONA  
PREMIUM INCOME  
MUNICIPAL FUND, INC.  
NAZ

NUVEEN ARIZONA  
DIVIDEND ADVANTAGE  
MUNICIPAL FUND  
NFZ

NUVEEN ARIZONA  
DIVIDEND ADVANTAGE  
MUNICIPAL FUND 2  
NKR

NUVEEN ARIZONA  
DIVIDEND ADVANTAGE  
MUNICIPAL FUND 3  
NXE

NUVEEN TEXAS  
QUALITY INCOME  
MUNICIPAL FUND  
NTX

Photo of: Man, woman and child at the beach.

Photo of: A child.

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

Logo: NUVEEN Investments

Photo of: Woman

Photo of: Woman

Photo of: Man and child

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OR

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if you get your Nuveen Fund dividends  
and statements directly from Nuveen.

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

Logo: NUVEEN Investments

Photo: Timothy R. Schwertfeger

Timothy R. Schwertfeger  
Chairman of the Board

Chairman's  
LETTER TO SHAREHOLDERS

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

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

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

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

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

Sincerely,

/s/ Timothy R. Schwertfeger

Timothy R. Schwertfeger  
Chairman of the Board

September 15, 2006

Nuveen Investments Arizona and Texas  
Municipal Exchange-Traded Closed-End Funds  
(NAZ, NFZ, NKR, NXE, NTX)

Portfolio Managers'  
COMMENTS

Portfolio managers Scott Romans and Cathryn Steeves discuss economic and municipal market conditions at both the national and state levels, key investment strategies, and the annual performance of these five Nuveen Funds. Scott, who joined Nuveen in 2000, has managed the Arizona Funds since 2003. Cathryn, who has been with Nuveen since 1996, assumed portfolio management responsibility for NTX in 2004.

WHAT FACTORS AFFECTED THE U.S. ECONOMY AND MUNICIPAL MARKET DURING THE ANNUAL REPORTING PERIOD ENDED JULY 31, 2006?

During this reporting period, we saw an increase in interest rates (and a corresponding drop in bond prices) across virtually the entire yield curve, although during much of the period rates at the longer end of the curve generally remained more stable than short-term rates. Between August 1, 2005 and July 31, 2006, the Federal Reserve announced eight increases of 0.25% each in the fed funds rate, raising this short-term benchmark by 200 basis points from 3.25% to 5.25%. By comparison, the yield on the benchmark 10-year U.S. Treasury note ended July 2006 at 4.98%, up 70 basis points from 12 months earlier. This resulted in a yield curve flattening as shorter-term rates approached or exceeded the levels of longer-term rates.

In the municipal market, the Bond Buyer 25 Revenue Bond Index, a widely followed measure of longer-term municipal market rates, stood at 5.13% at the end of July 2006, an increase of just 27 basis points from the beginning of August 2005.

Despite rising interest rates, record energy prices, and a softening housing

market, the overall economy remained resilient. After expanding at an annual rate of 4.2% in the third quarter of 2005, the U.S. gross domestic product (GDP) growth rate slowed to 1.8% (annualized) in the fourth quarter of 2005, then rebounded sharply to 5.6% (annualized) in the first quarter of 2006. In the second quarter of 2006, GDP growth moderated to 2.9% (annualized), with the deceleration reflecting a downturn in federal spending as well as the largest decline in residential investment in 11 years. Despite sluggish payroll growth, the overall jobs picture remained positive, with national unemployment at 4.8% in July 2006, down from 5.0% in July 2005. However, the markets continued to keep a close eye on inflation trends, with the year-over-year increase in the Consumer Price Index registering 4.1% as of July 2006. During the first seven months of 2006, the increase in inflation was driven mainly by higher energy and transportation costs, rising at a rate of 4.8% (annualized), compared with 3.4% for all of 2005.

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Over the 12 months ended July 2006, municipal bond supply nationwide remained strong, as \$403.6 billion in new securities came to market, up 3% from the previous 12 months. However, following record levels of municipal issuance in calendar year 2005, we saw a drop-off in new supply during the first seven months of 2006, when issuance totaled \$205.2 billion, off 16% from the same period in 2005. A major factor in 2006's decline in supply was the sharp reduction in pre-refunding volume, which dropped 57% from last year's levels, as rising interest rates made advance refundings less economically attractive. In the month of July 2006 alone, pre-refunding volume was down 85% compared with July 2005. Overall, demand for municipal bonds, especially those offering higher yields, continued to be strong and broad-based, with retail investors, property and casualty insurance companies, and hedge funds all participating in the market.

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

Arizona's economy was the fastest growing in the nation in 2005, with a gross state product growth of \$8.7 billion. During this reporting period, the government, professional and business services, and retail trade sectors served as the main economic drivers for the state. Construction also played a major role, although Arizona has begun to move away from industries related to the housing boom. Job growth continued across multiple regions and industries within the state, with the technology and aerospace sectors also continuing to perform well. As of July 2006, Arizona's unemployment rate was 4.7%, down from 4.8% in July 2005 but up from the five-year low of 4.1% posted in March 2006. Arizona's population trends continued to be strong, with growth of 14.3% over the past five years. While the retiree population continued to grow, the number of younger workers also increased, making Arizona the 5th youngest state in the nation. As of July 2006, Moody's issuer rating for Arizona was Aa3, while Standard & Poor's maintained its rating of AA. For the 12 months ended July 31, 2006, municipal issuance in Arizona totaled \$9.1 billion, an increase of 12% over the previous 12 months. During the first seven months of 2006, however, Arizona issuance declined sharply, falling 35% from that of January-July 2005, to \$3.2 billion.

With a gross state product growth of \$4.3 billion, Texas ranked as the 16th fastest growing state economy in the nation in 2005, led by government, education and health services, and professional and business services. Although employment by industry continued to be well diversified, Texas remained heavily dependent on the energy and defense industries, with military bases and oil companies representing five of the state's

nine largest employers. Higher energy prices have led to increased interest in natural gas, mining as well as energy-related manufacturing and services in the state. Population trends in Texas, with growth of more than 9% over the past five years, remained positive, which created greater demand for consumer services and retail industries. Texas also continued to be central to NAFTA trade routes. Over the past 12 months, the unemployment rate for Texas remained fairly steady, standing at 5.2% in July 2006, on par with the rate for July 2005. As of July 31, 2006, Moody's, S&P, and Fitch maintained their ratings on Texas general obligation debt at Aa1, AA, and AA+, respectively. For the 12 months ended July 31, 2006, municipal issuance in Texas reached \$34.8 billion, an increase of 4% over the previous 12 months. Issuance during the first seven months of 2006 declined 22% from the same period in 2005, to \$18.5 billion. However, Texas was the second largest state issuer in the nation (behind California) for this period.

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

As interest rates rose and the yield curve flattened during this 12-month period, we continued to emphasize careful management of the Funds' underlying portfolios in line with our established targets. This included a disciplined approach to duration<sup>1</sup> management and yield curve positioning. In selecting new additions for the portfolios, we focused mainly on attractively priced, premium coupon<sup>2</sup> bonds maturing in 15 to 20 years for the Arizona Funds and in 20 to 25 years for NTX, depending on the differing needs of the Funds. Overall, we believed that bonds in these parts of the curve offered strong performance potential, better value, and attractive reward opportunities without excessive risk.

To help maintain the Funds' durations within our preferred strategic range, we selectively sold holdings with shorter durations, including pre-refunded bonds with short call or maturity dates. Selling these shorter-term bonds and reinvesting further out on the yield curve also helped to improve the Funds' overall call protection profile. With yields rising during this period, we also found some opportunities to sell a few of our holdings that were purchased when yields were lower and we replaced them with similar, newer credits that yielded comparatively more. This process allowed us to maintain the Funds' current portfolio characteristics while strengthening their future income streams. For example, all four Arizona Funds sold holdings of insured Arizona water bonds that had a maturity date of 2024 and yield of 4.38% and replaced them with insured Phoenix water

- 1 Duration is a measure of a bond's price sensitivity as interest rates change, with longer duration bonds displaying more sensitivity to these changes than bonds with shorter durations.
- 2 Premium coupon bonds are credits that are trading above their par values because their coupons are higher than current coupon levels. Historically, these bonds have held their value better than current coupon bonds when interest rates rise.

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bonds with a maturity date of 2023 and yield of 4.57%, thereby picking up 19 basis points of yield on the position.

In looking for potential purchase candidates, we kept an opportunistic eye toward all types of issuance that we believed could add value to the Funds' portfolios. As previously mentioned, while issuance in Arizona and Texas was up for the 12-month period as a whole, both states saw declines in municipal supply during the first seven months of 2006, with Arizona experiencing the sharper drop-off. In general, however, these declines did not have a major impact on the implementation of strategies we had planned for these Funds. Since Arizona and Texas are relatively high-quality states, much of the new supply was highly rated and/or insured, and the majority of our new purchases were higher-rated credits. In Arizona, our purchases of these higher-rated bonds were based largely on yield curve positioning.

We also continued to emphasize maintaining the Funds' weightings of bonds at the lower end of the credit spectrum. As credit spreads continued to narrow and municipal supply tightened in 2006, we generally found fewer interesting lower-rated credit opportunities in the Arizona and Texas markets. However, given Arizona's population growth and resulting infrastructure needs, the credit markets there did offer some unique lower-rated opportunities, including higher coupon, non-rated bonds maturing in 2030 issued for the Watson Road Community Facilities District, which we purchased for NFZ, NKR, and NXE. Overall, the Arizona Funds and NTX continued to have good exposure to the lower-rated credit categories.

In NFZ, NKR, and NXE, our duration management strategies over the past 12 months included the use of forward interest rate swaps, a type of derivative financial instrument. As discussed in our last shareholder report, we began using this hedging strategy in late 2004 in an effort to reduce the interest rate risk in these Funds. The hedges were not an attempt to profit from correctly predicting the timing and direction of interest rate movements. Instead, our sole objective was to reduce the durations (and price sensitivity) of these Funds without having a negative impact on their income streams or common share dividends over the short term. We believe the hedging strategy was effective in helping to reduce the net asset value (NAV) volatility of these Funds. The durations of NFZ and NKR shortened over the period and we were able to remove the hedges on these Funds in February 2006. The hedge on NXE remained in place as of July 31, 2006.

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### HOW DID THE FUNDS PERFORM?

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

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

For periods ended 7/31/06

ARIZONA FUNDS	1-YEAR	5-YEAR	10-YEAR
NAZ	1.84%	5.19%	5.67%
NFZ	2.14%	6.89%	NA
NKR	2.49%	NA	NA

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NXE	3.03%	NA	NA
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TEXAS FUND			
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NTX	2.77%	6.16%	6.35%
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Lehman Brothers Municipal Bond Index <sup>3</sup>			
	2.55%	4.99%	5.82%
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Lipper Other States Municipal Debt Funds Average <sup>4</sup>			
	2.46%	6.53%	6.69%
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\*Annualized

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

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

For the 12 months ended July 31, 2006, the total returns on NAV for NXE and NTX outperformed the return on the Lehman Brothers Municipal Bond Index, while NAZ, NFZ and NKR trailed the index return. NXE and NTX exceeded the average return for the Lipper Other States peer group, while NKR performed in line with this average. NAZ and NFZ lagged this average. Shareholders should note that the performance of the Lipper Other States category represents the overall average of returns for funds from 10 different states with a wide variety of municipal market conditions, making direct comparisons less meaningful.

The major factor impacting the annual performance of these Funds, especially in relation to the return for the unleveraged Lehman Brothers Municipal Bond Index, was the Funds' use of financial leverage. Although leverage provides opportunities for additional income and total returns for common shareholders when interest rates fall or remain consistently low, this benefit is reduced when interest rates rise. With the increases in interest rates during this period, the decline in value of the bonds in the underlying portfolios of these Funds was exacerbated by the effects of leverage. In addition, the benefits of leverage

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



are tied in part to the short-term rates leveraged Funds pay their MuniPreferred(R) shareholders. During periods of low short-term rates, these Funds generally pay lower dividends to their MuniPreferred shareholders, which can leave more earnings to support common share dividends. Conversely, when short-term interest rates rise, as they did during this reporting period, the Funds' borrowing costs also rise, impacting the Funds' income streams and total returns. Despite the rise in short-term rates over this one-year period, the Funds' leveraging strategy continued to benefit common shareholders, and we remain convinced that, over the long term, these benefits should continue. This is demonstrated by the five-year and ten-year return performance--both absolute and relative to the Lehman index--of the older Funds in this report.

Other factors influencing the Funds' returns during this period included yield curve positioning and duration management, allocations to lower-rated credits (or credit risk), sector weightings, and pre-refunding activity.

As the yield curve continued to flatten over the course of this period, bonds in the Lehman Brothers municipal index with maturities between two and six years generally were the most adversely impacted, and they generally underperformed long-intermediate bonds (those with maturities between 17 and 22 years) and long-term bonds (those with maturities of at least 22 years). Overall, the Arizona Funds and NTX were strategically well positioned across the yield curve during this period. In particular, NTX had good exposure to the long-intermediate part of the curve, but was slightly underexposed to bonds in the longest segment.

With bonds rated BBB or lower and non-rated bonds generally outperforming other credit quality sectors during this period, all of these Funds benefited from their allocations of lower-quality credits. The performance of this sector was largely the result of investor demand for the higher yields typically associated with lower-quality bonds. Among the Arizona Funds, BBB, below investment grade and non-rated bonds accounted for 11% of NAZ and NFZ, 12% of NXE, and 13% of NKR as of July 31, 2006. NTX allocated 14% of its portfolio to lower-rated credit categories that helped to boost the Fund's performance during this period. Among the lower-rated holdings making positive contributions to the Funds' total returns for this period were health care (including hospitals) credits and industrial development bonds, both of which ranked among the top performing revenue sectors in the Lehman Brothers municipal index, as well as bonds backed by the 1998 master tobacco settlement agreement (which comprised approximately 1% of the portfolios of NAZ, NXE, and NTX). With some signs of improvement in the airline industry, NTX's small position in American Airlines bonds also contributed to this Fund's performance.

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Housing bonds were also among some of the best performing credits in the Funds' portfolios, as rising interest rates lessened the incidence and impact of prepayments and bond calls. Both multi-family and single-family housing bonds were positive contributors across all of these Funds.

During this period, we continued to see a number of advance refundings,<sup>5</sup> which benefit the Funds through price appreciation and enhanced credit quality. During this reporting period, advance refundings totaled 7% in NFZ, NXE, and NTX; 8% in NKR; and 9% in NAZ.

While advance refundings generally enhanced performance for this 12-month period, the rising interest rate environment meant that the Funds' holdings of previously pre-refunded bonds tended to underperform the general municipal

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market. Among these five Funds, NAZ had the heaviest allocation of these bonds going into this period. NAZ also was the only one of the Arizona Funds that was not hedged during this period, when hedging had a positive impact on performance as the value of the hedges increased as interest rates rose. In NFZ, bonds issued for a federally guaranteed multi-family housing project that were restructured by the Federal Housing Administration continued to have a negative impact on the Fund's performance during this period. In addition, a bond call affecting one of NTX's multi-family housing holdings--bonds issued by Grand Prairie Housing Finance Corporation for the Landings of Carrier project--detracted from this Fund's performance.

HOW WERE THE FUNDS POSITIONED IN TERMS OF CREDIT QUALITY AND BOND CALLS AS OF JULY 31, 2006?

We continued to believe that maintaining strong credit quality was an important requirement. As of July 31, 2006, all of these Funds continued to offer excellent credit quality, with allocations of bonds rated AAA/U.S. guaranteed and AA ranging from 77% in NKR and 79% in NTX to 80% in NXE, 83% in NFZ, and 84% in NAZ.

As of July 31, 2006, potential call exposure for the period August 2006 through the end of 2008 ranged from 4% in NKR and NXE, 6% in NAZ, and 8% in NFZ to 13% in NTX. The number of actual bond calls in all of these Funds depends largely on future market interest rates.

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

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### Dividend and Share Price INFORMATION

As previously noted, all of these Funds use leverage to potentially enhance opportunities for additional income for common shareholders. During periods of rising short-term interest rates, as was the case during this reporting period, the Funds' borrowing costs also rise, reducing the extent of the benefits of leveraging. The Funds' income streams were also impacted as the proceeds from older, higher-yielding bonds that matured or were called were reinvested into bonds currently available in the market, which generally offered lower yields. These factors resulted in two monthly dividend reductions in NKR and NXE, three in NFZ and NTX, and four in NAZ over the 12-month period ended July 31, 2006.

Due to capital gains generated by normal portfolio activity, common shareholders of the following Funds received capital gains or net ordinary income distributions at the end of December 2005, as follows:

	LONG-TERM CAPITAL GAINS (PER SHARE)	ORDINARY INCOME (PER SHARE)
NFZ	\$0.0764	--
NKR	\$0.1058	--
NTX	--	\$0.0020

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These distributions, which represented an important part of the total returns for NFZ and NKR for this period, were generated by bond calls and sales of appreciated securities. This had a slight negative impact on the earning power per common share of these Funds and was a minor factor in the common share dividend reductions noted above.

All of the Funds in this report seek to pay stable dividends at rates that reflect each Fund's past results and projected future performance. During certain periods, each Fund may pay dividends at a rate that may be more or less than the amount of net investment income actually earned by the Fund during the period. If a Fund has cumulatively earned more than it has paid in dividends, it holds the excess in reserve as undistributed net investment income (UNII) as part of the Fund's NAV. Conversely, if a Fund has cumulatively paid dividends in excess of its earnings, the excess constitutes negative UNII that is likewise reflected in the Fund's NAV. Each Fund will, over time, pay all of its net investment income as dividends to shareholders. As of July 31, 2006, NFZ and NTX had positive UNII balances for both financial statement and tax purposes, while NAZ,

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NKR and NXE had positive UNII balances for tax purposes and negative UNII balances for financial statement purposes.

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

	7/31/06 PREMIUM/DISCOUNT	12-MONTH AVERAGE PREMIUM/DISCOUNT
NAZ	-2.91%	+0.49%
NFZ	+7.65%	+9.26%
NKR	+2.47%	+2.64%
NXE	-5.59%	-0.39%
NTX	-2.32%	-2.86%

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Nuveen Arizona Premium Income Municipal Fund, Inc.  
NAZ

Performance  
OVERVIEW As of July 31, 2006

Pie Chart:  
CREDIT QUALITY  
(as a % of total investments)  
AAA/U.S. Guaranteed 74%

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AA	10%
A	5%
BBB	8%
BB or Lower	1%
N/R	2%

Bar Chart:

2005-2006 MONTHLY TAX-FREE DIVIDENDS PER SHARE

Aug	0.0645
Sep	0.0615
Oct	0.0615
Nov	0.0615
Dec	0.058
Jan	0.058
Feb	0.058
Mar	0.055
Apr	0.055
May	0.055
Jun	0.051
Jul	0.051

Line Chart:

SHARE PRICE PERFORMANCE

Weekly Closing Price

Past performance is not predictive of future results.

8/01/05	15.44
	15.52
	15.54
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	15.47
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13.5  
13.41  
13.48  
13.45  
13.64  
13.6  
13.6  
13.6  
13.61  
13.63  
13.6  
13.5  
13.54  
13.62  
13.5  
13.65  
13.41  
13.55  
13.64  
13.48  
13.55  
13.55  
13.46

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	13.29
	13.36
	13.34
	13.4
	13.26
	13.44
	13.21
	13.16
	13.16
	13.16
	13.2
	13.32
	13.3
	13.35
	13.3
	13.3
	13.3
	13.35
	13.42
	13.35
	13.3
	13.44
	13.58
	13.5
	13.44
	13.46
	13.56
	13.54
	13.45
	13.46
7/31/06	13.69

FUND SNAPSHOT

Common Share Price	\$13.69
Common Share Net Asset Value	\$14.10
Premium/(Discount) to NAV	-2.91%
Market Yield	4.47%
Taxable-Equivalent Yield <sup>1</sup>	6.53%
Net Assets Applicable to Common Shares (\$000)	\$63,024
Average Effective Maturity on Securities (Years)	15.04
Leverage-Adjusted Duration	8.12

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

	ON SHARE PRICE	ON NAV
1-Year	-5.62%	1.84%



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5-Year	2.01%	5.19%
10-Year	5.47%	5.67%

INDUSTRIES

(as a % of total investments)

Tax Obligation/Limited	27.3%
Water and Sewer	16.4%
U.S. Guaranteed	16.3%
Education and Civic Organizations	11.1%
Utilities	9.5%
Health Care	8.1%
Other	11.3%

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 combined federal and state income tax rate of 31.5%. When comparing this Fund to investments that generate qualified dividend income, the Taxable-Equivalent Yield is lower.

Nuveen Arizona Dividend Advantage Municipal Fund  
NFZ

Performance

OVERVIEW As of July 31, 2006

Pie Chart:

CREDIT QUALITY

(as a % of total investments)

AAA/U.S. Guaranteed	69%
AA	14%
A	6%
BBB	7%
N/R	4%

Bar Chart:

2005-2006 MONTHLY TAX-FREE DIVIDENDS PER SHARE<sup>2</sup>

Aug	0.0765
Sep	0.073
Oct	0.073
Nov	0.073
Dec	0.069
Jan	0.069
Feb	0.069
Mar	0.069

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Apr	0.069
May	0.069
Jun	0.0655
Jul	0.0655

Line Chart:

SHARE PRICE PERFORMANCE

Weekly Closing Price

Past performance is not predictive of future results.

8/01/05	16.07
	16.16
	16.25
	16.25
	16.25
	16.25
	16.21
	16.55
	16.7
	17.25
	17.35
	17.64
	17.85
	17.82
	17.82
	17.75
	17.75
	17.7
	17.6
	17.6
	17.75
	17.75
	17.72
	17.73
	18.25
	18.4
	18.4
	18.4
	18.4
	18.4
	18.15
	18
	17.7
	17.65
	17.65
	17.56
	17.56
	17.47
	17.47
	17.03
	16.86
	16.86
	17.03
	16.7
	16.7
	16.8
	16.8
	16.81
	16.81
	16.8
	16.7
	16.7
	16.8

16.8  
17  
16.9  
16.99  
17.25  
17.38  
17.2  
17.25  
16.7  
16.45  
16.45  
16.55  
16.55  
16.62  
16.58  
16.5  
16.35  
16.45  
16.58  
16.45  
16.45  
16.08  
16.08  
15.7  
15.8  
15.8  
15.78  
15.89  
15.76  
15.95  
15.98  
16.05  
16.3  
16.3  
16.55  
16.59  
16.6  
16.59  
16.6  
16.6  
16.6  
16.4  
16.1  
16.1  
16.48  
16.47  
16.55  
16.59  
16.8  
17  
16.9  
16.9  
17.01  
17.11  
17.11  
17.2  
17.15  
17.05  
17.1  
16.9  
17  
17.08

17.09  
17  
16.8  
16.8  
16.6  
16.6  
16.51  
16.64  
16.64  
16.64  
16.64  
16.2  
16.1  
16.36  
16.35  
16.35  
16.35  
16.35  
16.52  
16.55  
16.55  
16.42  
16.5  
16.6  
16.55  
16.74  
16.44  
16.3  
15.9  
16.04  
16.39  
16.48  
16.32  
16.38  
15.78  
15.77  
15.85  
15.85  
16.02  
15.76  
15.76  
15.76  
15.76  
16  
16  
16.08  
16.08  
16.08  
16.02  
16.03  
16.03  
16.03  
16.03  
15.91  
15.91  
15.86  
15.79  
15.53  
15.39  
15.19  
15.2  
15.18

15.38  
15.1  
15.1  
15.1  
15.1  
15.1  
15.49  
15.59  
15.4  
15.46  
15.58  
15.8  
15.8  
15.8  
16.1  
16.16  
16.3  
16.5  
16.4  
16.22  
16.22  
16.05  
16.05  
15.98  
16  
16  
16  
16.1  
16.1  
15.85  
15.85  
15.95  
15.9  
15.99  
15.99  
16.04  
16.08  
16.08  
15.87  
15.74  
15.75  
15.66  
15.6  
15.6  
15.6  
15.61  
15.48  
15.5  
15.44  
15.44  
15.44  
15.35  
15.35  
15.35  
15.35  
15.35  
15.35  
15.57  
15.6  
15.6  
15.67  
15.91

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	16.25
	16.02
	16.02
	16.02
	15.9
	15.9
	15.9
	15.8
	15.7
	15.8
	15.9
	15.9
	15.9
	15.9
7/31/06	15.9

FUND SNAPSHOT

Common Share Price	\$15.90
Common Share Net Asset Value	\$14.77
Premium/(Discount) to NAV	7.65%
Market Yield	4.94%
Taxable-Equivalent Yield <sup>1</sup>	7.21%
Net Assets Applicable to Common Shares (\$000)	\$22,862
Average Effective Maturity on Securities (Years)	14.56
Leverage-Adjusted Duration	8.71

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

	ON SHARE PRICE	ON NAV
1-Year	4.54%	2.14%
5-Year	6.35%	6.89%
Since Inception	7.02%	6.78%

INDUSTRIES

(as a % of total investments)

Tax Obligation/Limited	34.5%
Utilities	16.9%
Tax Obligation/General	14.8%
U.S. Guaranteed	9.5%

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Water and Sewer	7.8%
Education and Civic Organizations	5.0%
Health Care	5.0%
Other	6.5%

- 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 31.5%. When comparing this Fund to investments that generate qualified dividend income, the Taxable-Equivalent Yield is lower.
- 2 The Fund paid shareholders a capital gains distribution in December 2005 of \$0.0764 per share.

14

Nuveen Arizona Dividend Advantage Municipal Fund 2  
NKR

Performance

OVERVIEW As of July 31, 2006

Pie Chart:

CREDIT QUALITY

(as a % of total investments)

AAA/U.S. Guaranteed	68%
AA	9%
A	10%
BBB	10%
N/R	3%

Bar Chart:

2005-2006 MONTHLY TAX-FREE DIVIDENDS PER SHARE<sup>2</sup>

Aug	0.072
Sep	0.072
Oct	0.072
Nov	0.072
Dec	0.0685
Jan	0.0685
Feb	0.0685
Mar	0.0685
Apr	0.0685
May	0.0685
Jun	0.0645
Jul	0.0645

Line Chart:

SHARE PRICE PERFORMANCE

Weekly Closing Price

Past performance is not predictive of future results.

8/01/05 16.12

16.31  
16.15  
16.39  
16.39  
16.39  
16.2  
16.16  
16.09  
16.5  
16.45  
16.77  
16.77  
16.77  
16.75  
16.6  
16.37  
16.45  
16.4  
16.33  
16.33  
16.25  
16.17  
16.14  
16.25  
16.25  
16.25  
16.44  
16.44  
16.24  
16.52  
16.69  
16.77  
16.55  
16.55  
16.55  
16.55  
16.39  
16.27  
16.15  
15.86  
15.86  
16  
15.87  
15.87  
15.87  
15.72  
15.85  
15.85  
15.74  
15.74  
15.6  
15.91  
16.12  
16.12  
16.2  
16.06  
16.3  
16.5  
16.11  
16.11  
16.06  
15.84



15.74  
15.8  
15.7  
15.72  
15.72  
15.71  
15.59  
16.16  
16.3  
16.2  
16.2  
16.07  
16.19  
16.19  
16.22  
16.1  
16.45  
16.45  
16.25  
16.25  
15.95  
15.63  
15.6  
15.74  
15.63  
15.74  
15.74  
15.6  
15.6  
15.29  
15.13  
14.95  
14.94  
14.83  
15.25  
15.05  
14.93  
15.2  
15.52  
15.3  
14.97  
15.35  
15.5  
15.54  
15.54  
15.46  
15.35  
15.39  
15.4  
15.65  
15.99  
15.8  
15.9  
15.9  
15.9  
15.63  
15.63  
15.74  
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15.75  
15.75  
15.61

15.64  
15.51  
15.5  
15.55  
15.55  
15.55  
15.5  
15.5  
15.55  
15.64  
15.67  
15.58  
15.69  
15.57  
15.64  
15.74  
15.74  
15.65  
15.52  
15.65  
15.68  
15.85  
15.88  
15.48  
15.41  
15.58  
15.48  
15.54  
15.53  
15.53  
15.45  
15.31  
15.29  
15.29  
15.21  
15.24  
15.21  
15.13  
15.19  
15.2  
15.2  
15.55  
15  
15.1  
15.15  
15.14  
14.92  
14.95  
14.99  
14.99  
14.93  
14.94  
15.2  
15.4  
15.15  
14.95  
14.95  
14.95  
15.06  
15.06  
15.25  
15.25

15.16  
15.3  
15.3  
15.3  
15.22  
15.33  
15.35  
14.96  
15.16  
15.35  
15.27  
15.18  
14.96  
15.3  
15.2  
15.2  
15.45  
15.5  
15.5  
15.35  
15.05  
15.05  
15  
14.98  
15.14  
15.14  
15.38  
15.32  
15.6  
15.35  
15.35  
15.15  
15.22  
15.14  
15.1  
14.92  
14.91  
14.91  
14.86  
14.83  
14.89  
15.1  
15.1  
14.95  
14.76  
14.76  
14.82  
14.75  
14.75  
14.9  
14.9  
14.9  
15.14  
15.14  
15.08  
15.17  
15.16  
15.18  
15.22  
15.36  
15.23  
15.23

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	15.25
	15.24
	15.27
	15.27
7/31/06	15.37

FUND SNAPSHOT

Common Share Price	\$15.37
Common Share Net Asset Value	\$15.00
Premium/(Discount) to NAV	2.47%
Market Yield	5.04%
Taxable-Equivalent Yield <sup>1</sup>	7.36%
Net Assets Applicable to Common Shares (\$000)	\$36,465
Average Effective Maturity on Securities (Years)	14.58
Leverage-Adjusted Duration	8.55

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

	ON SHARE PRICE	ON NAV
1-Year	0.82%	2.49%
Since Inception	6.63%	7.16%

INDUSTRIES  
(as a % of total investments)

Tax Obligation/Limited	28.3%
Tax Obligation/General	22.7%
Health Care	10.3%
U.S. Guaranteed	9.5%
Water and Sewer	7.8%
Education and Civic Organizations	7.3%
Housing/Multifamily	5.4%
Other	8.7%

1 Taxable-Equivalent Yield represents the yield that must be earned on a

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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 31.5%. When comparing this Fund to investments that generate qualified dividend income, the Taxable-Equivalent Yield is lower.

- 2 The Fund paid shareholders a capital gains distribution in December 2005 of \$0.1058 per share.

15

Nuveen Arizona Dividend Advantage Municipal Fund 3  
 NXE

Pie Chart:

CREDIT QUALITY

(as a % of total investments)

AAA/U.S. Guaranteed	70%
AA	10%
A	8%
BBB	8%
N/R	4%

Bar Chart:

2005-2006 MONTHLY TAX-FREE DIVIDENDS PER SHARE

Aug	0.0635
Sep	0.0635
Oct	0.0635
Nov	0.0635
Dec	0.0605
Jan	0.0605
Feb	0.0605
Mar	0.0605
Apr	0.0605
May	0.0605
Jun	0.0565
Jul	0.0565

Line Chart:

SHARE PRICE PERFORMANCE

Weekly Closing Price

Past performance is not predictive of future results.

8/01/05	14.45
	14.33
	14.3
	14.39
	14.16
	14.22
	14.08
	14.21
	14.11
	14.18
	14.17
	14.24
	14.29
	14.39

14.47  
14.51  
14.52  
14.63  
14.85  
14.75  
15.1  
15.1  
14.8  
15  
15.1  
15  
15  
14.81  
15.1  
14.95  
15.01  
15.26  
15.05  
14.7  
14.6  
14.63  
14.63  
14.63  
14.63  
14.68  
14.75  
14.8  
14.65  
14.78  
14.78  
14.78  
14.78  
14.89  
14.87  
15.13  
14.8  
14.73  
14.66  
14.66  
14.53  
14.6  
14.98  
14.99  
14.8  
14.9  
14.9  
14.72  
14.95  
14.86  
14.99  
14.95  
14.7  
14.74  
14.4  
14.35  
14.5  
14.3  
14.15  
14.18  
14.17  
14.48

14.49  
14.5  
14.5  
14.5  
14.5  
14.62  
14.67  
14.4  
14.52  
14.42  
14.55  
14.6  
14.61  
14.94  
14.98  
14.98  
14.97  
15.02  
14.82  
14.91  
14.91  
14.95  
14.95  
15.01  
14.95  
14.73  
14.76  
14.9  
14.9  
15.05  
15.05  
15.05  
15.02  
14.95  
15.05  
15.05  
15.11  
14.8  
14.71  
14.44  
14.44  
14.45  
14.5  
14.43  
14.42  
14.5  
14.41  
14.16  
14.12  
14.25  
14.15  
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14.45  
14.62  
14.36  
14.24  
14.05  
14.05  
14.43  
14.43  
14.44  
14.26  
14.5  
14.5  
14.5  
14.36  
14.23  
14.34  
14.23  
14.4  
14.4  
14.25  
14.2  
14.18  
14.3  
14.38  
14.48  
14.92  
14.79  
14.3  
14.6  
14.6  
14.95  
14.7  
14.58  
14.35  
14.33  
14.48  
14.19  
14.19  
14.04  
14.05  
14.2  
14.5  
14.5  
14  
14.1  
14.17  
14.18  
14.3  
14.3  
14.3  
14.11  
13.76  
13.85



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13.95  
 13.79  
 13.56  
 13.67  
 13.7  
 13.7  
 13.7  
 13.52  
 13.65  
 13.6  
 13.65  
 13.63  
 13.77  
 14  
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 14  
 13.89  
 13.8  
 13.65  
 13.68  
 13.58  
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 13.51  
 13.5  
 13.51  
 13.59  
 13.62  
 13.78  
 13.57  
 13.59  
 13.59  
 13.7  
 13.7  
 13.46  
 13.45  
 13.41  
 13.43  
 13.62  
 13.69  
 13.64  
 13.58  
 13.6  
 13.6  
 13.58  
 13.58  
 13.52

7/31/06

FUND SNAPSHOT

Common Share Price	\$13.52
Common Share Net Asset Value	\$14.32

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Premium/(Discount) to NAV	-5.59%
Market Yield	5.01%
Taxable-Equivalent Yield <sup>1</sup>	7.31%
Net Assets Applicable to Common Shares (\$000)	\$43,913
Average Effective Maturity on Securities (Years)	15.79
Leverage-Adjusted Duration	7.76

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

	ON SHARE PRICE	ON NAV
1-Year	-1.80%	3.03%
Since Inception	2.76%	5.44%

INDUSTRIES  
(as a % of total investments)

Tax Obligation/Limited	26.7%
Tax Obligation/General	13.3%
Health Care	11.9%
Education and Civic Organizations	10.8%
Transportation	9.1%
Utilities	8.2%
Water and Sewer	7.5%
U.S. Guaranteed	7.1%
Other	5.4%

1 Taxable-Equivalent Yield represents the yield that must be earned on a fully taxable investment in order to equal the yield of the Fund on an after-tax basis. It is based on a combined federal and state income tax rate of 31.5%. When comparing this Fund to investments that generate qualified dividend income, the Taxable-Equivalent Yield is lower.

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Nuveen Texas Quality Income Municipal Fund  
NTX

## Performance

OVERVIEW As of July 31, 2006

### Pie Chart:

#### CREDIT QUALITY

(as a % of total investments)

AAA/U.S. Guaranteed	68%
AA	11%
A	7%
BBB	12%
BB or Lower	2%

### Bar Chart:

#### 2005-2006 MONTHLY TAX-FREE DIVIDENDS PER SHARE<sup>2</sup>

Aug	0.073
Sep	0.0695
Oct	0.0695
Nov	0.0695
Dec	0.0695
Jan	0.0695
Feb	0.0695
Mar	0.066
Apr	0.066
May	0.066
Jun	0.0635
Jul	0.0635

### Line Chart:

#### SHARE PRICE PERFORMANCE

Weekly Closing Price

Past performance is not predictive of future results.

8/01/05	16.2
	16
	15.95
	15.84
	15.84
	15.69
	15.63
	15.48
	15.3
	15.45
	15.48
	15.55
	15.59
	15.68
	15.61
	15.61
	15.6
	15.61
	15.56
	15.52
	15.61
	15.63
	15.72
	15.7
	15.64
	15.61
	15.51

15.59  
15.67  
15.58  
15.61  
15.57  
15.4  
15.4  
15.43  
15.4  
15.29  
15.2  
15.07  
15.09  
14.9  
14.92  
14.87  
14.99  
14.97  
14.99  
14.8  
14.78  
14.64  
14.66  
14.59  
14.55  
14.28  
14.29  
14.27  
14.03  
14.07  
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7/31/06

FUND SNAPSHOT

Common Share Price	\$14.71
Common Share Net Asset Value	\$15.06
Premium/(Discount) to NAV	-2.32%
Market Yield	5.18%
Taxable-Equivalent Yield <sup>1</sup>	7.19%
Net Assets Applicable to Common Shares (\$000)	\$143,009
Average Effective Maturity on Securities (Years)	16.39

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Leverage-Adjusted Duration 7.49  
-----

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

	ON SHARE PRICE	ON NAV
1-Year	-4.03%	2.77%
5-Year	6.39%	6.16%
10-Year	6.41%	6.35%

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

Tax Obligation/General	28.2%
Health Care	13.3%
U.S. Guaranteed	12.5%
Education and Civic Organizations	10.0%
Water and Sewer	7.4%
Utilities	6.6%
Transportation	4.4%
Long-Term Care	4.1%
Other	13.5%

- 1 Taxable-Equivalent Yield represents the yield that must be earned on a fully taxable investment in order to equal the yield of the Fund on an after-tax basis. It is based on a federal income tax rate of 28%. When comparing this Fund to investments that generate qualified dividend income, the Taxable-Equivalent Yield is lower.
- 2 The Fund paid shareholders a net ordinary income distribution in December 2005 of \$.0020 per share.

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Report of  
INDEPENDENT REGISTERED  
PUBLIC ACCOUNTING FIRM

THE BOARDS OF DIRECTORS, TRUSTEES AND SHAREHOLDERS  
NUVEEN ARIZONA PREMIUM INCOME MUNICIPAL FUND, INC.  
NUVEEN ARIZONA DIVIDEND ADVANTAGE MUNICIPAL FUND



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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 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, 2006, 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 periods indicated therein. 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, 2006, by correspondence with the custodian and brokers or by other appropriate auditing procedures where replies from brokers were not received. 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, 2006, 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 periods indicated therein in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP

Chicago, Illinois  
September 21, 2006

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PRINCIPAL AMOUNT (000)	DESCRIPTION (1)	OPTIONAL C PROVISIONS
-----		
CONSUMER STAPLES - 1.5% (1.0% OF TOTAL INVESTMENTS)		
\$ 900	Puerto Rico, The Children's Trust Fund, Tobacco Settlement Asset-Backed Refunding Bonds, Series 2002, 5.375%, 5/15/33	5/12 at 100
-----		
EDUCATION AND CIVIC ORGANIZATIONS - 16.2% (11.1% OF TOTAL INVESTMENTS)		
1,000	Arizona State University, Certificates of Participation, Series 2002, 5.375%, 7/01/19 - MBIA Insured	7/12 at 100
1,000	Arizona State University, System Revenue Bonds, Series 2002, 5.000%, 7/01/25 - FGIC Insured	7/12 at 100
2,455	Arizona State University, System Revenue Bonds, Series 2005: 5.000%, 7/01/20 - AMBAC Insured	7/15 at 100
1,500	5.000%, 7/01/21 - AMBAC Insured	7/15 at 100
1,250	Glendale Industrial Development Authority, Arizona, Revenue Bonds, Midwestern University, Series 2001A, 5.875%, 5/15/31	5/11 at 101
1,050	Northern Arizona University, System Revenue Bonds, Series 2002, 5.000%, 6/01/34 - FGIC Insured	6/12 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
-----		
9,755	Total Education and Civic Organizations	
-----		
HEALTH CARE - 11.8% (8.1% OF TOTAL INVESTMENTS)		
800	Arizona Health Facilities Authority, Hospital Revenue Bonds, Catholic Healthcare West, Series 1999A, 6.625%, 7/01/20	7/10 at 101
1,450	Arizona Health Facilities Authority, Hospital System Revenue Bonds, Phoenix Children's Hospital, Series 1999A, 6.125%, 11/15/22	11/09 at 100
675	Glendale Industrial Development Authority, Arizona, Revenue Bonds, John C. Lincoln Health Network, Series 2005B, 5.000%, 12/01/37	12/15 at 100
550	Maricopa County Industrial Development Authority, Arizona, Health Facilities Revenue Bonds, Mayo Clinic, Series 2006, 5.000%, 11/15/36	5/16 at 100
2,150	Maricopa County Industrial Development Authority, Arizona, Health Facility Revenue Bonds, Catholic Healthcare West, Series 2004A, 5.375%, 7/01/23	7/14 at 100
515	Puerto Rico Industrial, Tourist, Educational, Medical and Environmental Control Facilities Financing Authority, Hospital	11/10 at 101

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	Revenue Bonds, Hospital de la Concepcion, Series 2000A, 6.375%, 11/15/15	
1,055	Winslow Industrial Development Authority, Arizona, Hospital Revenue Bonds, Winslow Memorial Hospital, Series 1998, 5.500%, 6/01/22	6/08 at 101
7,195	Total Health Care	
HOUSING/MULTIFAMILY - 6.9% (4.7% OF TOTAL INVESTMENTS)		
400	Phoenix Industrial Development Authority, Arizona, GNMA Collateralized Multifamily Housing Revenue Bonds, Campaigne Place on Jackson, Series 2001, 5.700%, 6/20/31 (Alternative Minimum Tax)	6/11 at 102
530	Phoenix Industrial Development Authority, Arizona, GNMA Collateralized Multifamily Housing Revenue Bonds, Park Lee Apartments, Series 2004A, 5.050%, 10/20/44 (Alternative Minimum Tax)	4/15 at 100
3,215	Tucson Industrial Development Authority, Arizona, Senior Living Facilities Revenue Bonds, Christian Care Project, Series 2000A, 5.625%, 7/01/20 - RAAI Insured	7/10 at 101
4,145	Total Housing/Multifamily	

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Nuveen Arizona Premium Income Municipal Fund, Inc. (NAZ) (continued)  
Portfolio of INVESTMENTS July 31, 2006

PRINCIPAL AMOUNT (000)	DESCRIPTION (1)	OPTIONAL C PROVISIONS
INDUSTRIALS - 2.1% (1.5% OF TOTAL INVESTMENTS)		
\$ 1,345	Yavapai County Industrial Development Authority, Arizona, Solid Waste Disposal Revenue Bonds, Waste Management Inc., Series 2003B, 4.450%, 3/01/28 (Mandatory put 3/01/08) (Alternative Minimum Tax)	No Opt. C
LONG-TERM CARE - 0.5% (0.4% OF TOTAL INVESTMENTS)		
345	Mohave County Industrial Development Authority, Arizona, GNMA Collateralized Healthcare Revenue Refunding Bonds, Chris Ridge and Silver Village Projects, Series 1996, 6.375%, 11/01/31	11/06 at 103
TAX OBLIGATION/GENERAL - 5.5% (3.7% OF TOTAL INVESTMENTS)		

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630	Maricopa County Union High School District 210 Phoenix, Arizona, General Obligation Bonds, Series 2006C, 5.000%, 7/01/24 - MBIA Insured	7/16 at 100
1,525	Maricopa County Union High School District 210, Phoenix, Arizona, General Obligation Bonds, Series 2004A, 5.000%, 7/01/21 - FSA Insured	7/14 at 100
330	Puerto Rico, General Obligation and Public Improvement Bonds, Series 2001A, 5.375%, 7/01/28	7/11 at 100
750	Puerto Rico, General Obligation and Public Improvement Bonds, Series 2002A, 5.500%, 7/01/19 - FGIC Insured	No Opt. C

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 3,235 Total Tax Obligation/General  
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TAX OBLIGATION/LIMITED - 39.9% (27.3% OF TOTAL INVESTMENTS)

2,000	Arizona School Facilities Board, School Improvement Revenue Bonds, Series 2004A, 5.750%, 7/01/18 - AMBAC Insured	7/14 at 100
1,000	Arizona Tourism and Sports Authority, Tax Revenue Bonds, Multipurpose Stadium Facility Project, Series 2003A: 5.375%, 7/01/20 - MBIA Insured	7/13 at 100
1,000	5.375%, 7/01/21 - MBIA Insured	7/13 at 100
720	Bullhead City, Arizona, Special Assessment Bonds, Parkway District Improvements, Series 1993: 6.100%, 1/01/08	1/07 at 100
775	6.100%, 1/01/09	1/07 at 100
482	Estrella Mountain Ranch Community Facilities District, Goodyear, Arizona, Special Assessment Lien Bonds, Series 2001A, 7.875%, 7/01/25	7/10 at 102
740	Greater Arizona Development Authority, Infrastructure Revenue Bonds, Series 2006A: 5.000%, 8/01/23 - MBIA Insured	8/16 at 100
875	5.000%, 8/01/25 - MBIA Insured	8/16 at 100
1,280	Greater Arizona Development Authority, Infrastructure Revenue Bonds, Series 2006, 5.000%, 8/01/22 - MBIA Insured	8/16 at 100
575	Marana Municipal Property Corporation, Arizona, Revenue Bonds, Series 2003, 5.000%, 7/01/28 - AMBAC Insured	7/13 at 100
3,400	Maricopa County Stadium District, Arizona, Revenue Refunding Bonds, Series 2002, 5.375%, 6/01/18 - AMBAC Insured	6/12 at 100
3,400	Mesa, Arizona, Street and Highway User Tax Revenue Bonds, Series 2005, 5.000%, 7/01/24 - FSA Insured	7/15 at 100
2,000	Phoenix Civic Improvement Corporation, Arizona, Subordinate Lien Excise Tax Revenue Bonds, Series 2003A, 5.000%, 7/01/21 - MBIA Insured	7/13 at 100
1,200	Prescott Valley Municipal Property Corporation, Arizona, Municipal Facilities Revenue Bonds, Series 2003,	1/13 at 100

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	5.000%, 1/01/27 - FGIC Insured	
1,000	Puerto Rico Public Buildings Authority, Guaranteed Government Facilities Revenue Refunding Bonds, Series 2002D, 5.125%, 7/01/24	7/12 at 100
1,610	San Luis Civic Improvement Corporation, Arizona, Municipal Facilities Excise Tax Revenue Bonds, Series 2005, 5.000%, 7/01/25 - XLCA Insured	7/15 at 100
1,350	Tempe, Arizona, Excise Tax Revenue Bonds, Series 2004, 5.250%, 7/01/20 - AMBAC Insured	7/14 at 100
500	Tucson, Arizona, Certificates of Participation, Series 2000, 5.700%, 7/01/20 - MBIA Insured	7/08 at 100
23,907	Total Tax Obligation/Limited	

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PRINCIPAL AMOUNT (000)	DESCRIPTION (1)	OPTIONAL C PROVISIONS
	U.S. GUARANTEED - 23.9% (16.3% OF TOTAL INVESTMENTS) (4)	
\$ 1,000	Arizona Health Facilities Authority, Hospital System Revenue Bonds, John C. Lincoln Health Network, Series 2000, 7.000%, 12/01/25 (Pre-refunded 12/01/10)	12/10 at 102
700	Arizona School Facilities Board, School Improvement Revenue Bonds, Series 2003, 5.000%, 7/01/21 (Pre-refunded 7/01/13)	7/13 at 100
1,250	Maricopa County Industrial Development Authority, Arizona, Hospital Revenue Refunding Bonds, Samaritan Health Services, Series 1990A, 7.000%, 12/01/16 - MBIA Insured (ETM)	No Opt. C
3,000	Mesa Industrial Development Authority, Arizona, Revenue Bonds, Discovery Health System, Series 1999A, 5.750%, 1/01/25 (Pre-refunded 1/01/10) - MBIA Insured	1/10 at 101
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
700	Phoenix Industrial Development Authority, Arizona, Government Office Lease Revenue Bonds, Capitol Mall LLC, Series 2000: 5.375%, 9/15/22 (Pre-refunded 9/15/10) - AMBAC Insured	9/10 at 100
2,000	5.500%, 9/15/27 (Pre-refunded 9/15/10) - AMBAC Insured	9/10 at 100
1,000	Puerto Rico Highway and Transportation Authority, Highway Revenue Bonds, Series 2000B, 6.500%, 7/01/27 (Pre-refunded 7/01/10)	7/10 at 101
1,500	Scottsdale Industrial Development Authority, Arizona, Hospital Revenue Bonds, Scottsdale Healthcare, Series 2001, 5.800%, 12/01/31 (Pre-refunded 12/01/11)	12/11 at 101

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600	Tucson, Arizona, Junior Lien Street and Highway User Revenue Bonds, Series 2000E, 5.000%, 7/01/18 (Pre-refunded 7/01/10) - FGIC Insured	7/10 at 100
-----		
13,750	Total U.S. Guaranteed	
-----		
UTILITIES - 13.9% (9.5% 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. C
1,000	Coconino County, Arizona, Pollution Control Revenue Bonds, Nevada Power Company Project, Series 1996, 6.375%, 10/01/36 (Alternative Minimum Tax)	10/06 at 102
765	Pima County Industrial Development Authority, Arizona, Lease Obligation Revenue Refunding Bonds, Tucson Electric Power Company, Series 1988A, 7.250%, 7/15/10 - FSA Insured	1/07 at 100
2,170	Puerto Rico Electric Power Authority, Power Revenue Bonds, Series 2005RR, 5.000%, 7/01/27 - XLCA Insured	7/15 at 100
530	Salt River Project Agricultural Improvement and Power District, Arizona, Electric System Revenue Bonds, Series 2002B, 5.000%, 1/01/22	1/13 at 100
	Salt River Project Agricultural Improvement and Power District, Arizona, Electric System Revenue Refunding Bonds, Series 2002A:	
2,000	5.125%, 1/01/27	1/12 at 101
1,000	5.000%, 1/01/31	1/12 at 101
-----		
8,465	Total Utilities	
-----		

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PRINCIPAL AMOUNT (000)	DESCRIPTION (1)	OPTIONAL C PROVISIONS
-----		
WATER AND SEWER - 23.9% (16.4% OF TOTAL INVESTMENTS)		
\$ 1,825	Arizona Water Infrastructure Finance Authority, Water Quality Revenue Bonds, Series 2004A, 5.000%, 10/01/19	10/14 at 100
1,005	Cottonwood, Arizona, Senior Lien Water System Revenue Bonds, Municipal Property Corporation, Series 2004, 5.000%, 7/01/24 - XLCA Insured	7/14 at 100
3,500	Glendale, Arizona, Water and Sewer Revenue Bonds, Subordinate Lien, Series 2003, 5.000%, 7/01/28 - AMBAC Insured	7/13 at 100

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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
1,415	Phoenix Civic Improvement Corporation, Arizona, Junior Lien Wastewater System Revenue Bonds, Series 2004, 5.000%, 7/01/24 - MBIA Insured	7/14 at 100
1,500	Phoenix Civic Improvement Corporation, Arizona, Junior Lien Water System Revenue Bonds, Series 2002, 5.000%, 7/01/26 - FGIC Insured	7/12 at 100
3,295	Phoenix Civic Improvement Corporation, Arizona, Junior Lien Water System Revenue Bonds, Series 2005, 5.000%, 7/01/23 - MBIA Insured	7/15 at 100
1,250	Phoenix Civic Improvement Corporation, Arizona, Junior Lien Water System Revenue Refunding Bonds, Series 2001, 5.500%, 7/01/21 - FGIC Insured	No Opt. C
-----		
14,390	Total Water and Sewer	
-----		
\$ 87,432	Total Investments (cost \$89,045,724) - 146.1%	
=====		
	Other Assets Less Liabilities - 1.5%	
-----		
	Preferred Shares, at Liquidation Value - (47.6)%	
-----		
	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 or Moody's rating. Ratings below BBB by Standard & Poor's Group or Baa by Moody's Investor Service, Inc. are considered to be below investment grade.
- (4) Backed by an escrow or trust containing sufficient U.S. Government or U.S. Government agency securities which ensure the timely payment of principal and interest. Such investments are normally considered to be equivalent to AAA rated securities.

N/R Not rated.

(ETM) Escrowed to maturity.

See accompanying notes to financial statements.

Nuveen Arizona Dividend Advantage Municipal Fund (NFZ)  
 Portfolio of  
 INVESTMENTS July 31, 2006

PRINCIPAL AMOUNT (000)	DESCRIPTION (1)	OPTIONAL C PROVISIONS
-----		
EDUCATION AND CIVIC ORGANIZATIONS - 7.2% (5.0% OF TOTAL INVESTMENTS)		
\$ 1,000	Puerto Rico Industrial, Tourist, Educational, Medical and Environmental Control Facilities Financing Authority, Higher Education Revenue Bonds, Ana G. Mendez University System, Series 1999, 5.375%, 2/01/29	2/09 at 101
300	Puerto Rico Industrial, Tourist, Educational, Medical and Environmental Control Facilities Financing Authority, Higher Education Revenue Bonds, University of the Sacred Heart, Series 2001, 5.250%, 9/01/21	9/11 at 100
305	Tucson Industrial Development Authority, Arizona, Charter School Revenue Bonds, Arizona Agribusiness and Equine Center Charter School, Series 2004A, 6.125%, 9/01/34	9/14 at 100
-----		
1,605	Total Education and Civic Organizations	
-----		
HEALTH CARE - 7.1% (5.0% OF TOTAL INVESTMENTS)		
365	Arizona Health Facilities Authority, Hospital Revenue Bonds, Catholic Healthcare West, Series 1999A, 6.625%, 7/01/20	7/10 at 101
250	Glendale Industrial Development Authority, Arizona, Revenue Bonds, John C. Lincoln Health Network, Series 2005B, 5.000%, 12/01/37	12/15 at 100
200	Maricopa County Industrial Development Authority, Arizona, Health Facilities Revenue Bonds, Mayo Clinic, Series 2006, 5.000%, 11/15/36	5/16 at 100
750	Maricopa County Industrial Development Authority, Arizona, Health Facility Revenue Bonds, Catholic Healthcare West, Series 2004A, 5.375%, 7/01/23	7/14 at 100
-----		
1,565	Total Health Care	
-----		
HOUSING/MULTIFAMILY - 6.6% (4.7% OF TOTAL INVESTMENTS)		
1,000	Maricopa County Industrial Development Authority, Arizona, Multifamily Housing Revenue Bonds, Whispering Palms Apartments, Series 1999A, 5.900%, 7/01/29 - MBIA Insured	7/09 at 102



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275	Phoenix Industrial Development Authority, Arizona, GNMA Collateralized Multifamily Housing Revenue Bonds, Campaigne Place on Jackson, Series 2001, 5.700%, 6/20/31 (Alternative Minimum Tax)	6/11 at 102
205	Phoenix Industrial Development Authority, Arizona, GNMA Collateralized Multifamily Housing Revenue Bonds, Park Lee Apartments, Series 2004A, 5.050%, 10/20/44 (Alternative Minimum Tax)	4/15 at 100
-----		
1,480	Total Housing/Multifamily	
-----		
HOUSING/SINGLE FAMILY - 0.3% (0.2% OF TOTAL INVESTMENTS)		
65	Pima County Industrial Development Authority, Arizona, FNMA/GNMA Single Family Mortgage Revenue Bonds, Series 2001A-4, 5.050%, 5/01/17	11/10 at 101
-----		
INDUSTRIALS - 2.2% (1.6% OF TOTAL INVESTMENTS)		
510	Yavapai County Industrial Development Authority, Arizona, Solid Waste Disposal Revenue Bonds, Waste Management Inc., Series 2003B, 4.450%, 3/01/28 (Mandatory put 3/01/08) (Alternative Minimum Tax)	No Opt. C
-----		
TAX OBLIGATION/GENERAL - 21.0% (14.8% 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
240	Maricopa County Union High School District 210 Phoenix, Arizona, General Obligation Bonds, Series 2006C, 5.000%, 7/01/24 - MBIA Insured	7/16 at 100
1,020	Tucson, Arizona, General Obligation Refunding Bonds, Series 1997, 5.000%, 7/01/19	7/07 at 100
2,340	Yuma & La Paz Counties Community College District, Arizona, General Obligation Bonds, Series 2006, 5.000%, 7/01/21 - MBIA Insured	7/16 at 100
-----		
4,600	Total Tax Obligation/General	
-----		

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Nuveen Arizona Dividend Advantage Municipal Fund (NFZ) (continued)  
Portfolio of INVESTMENTS July 31, 2006

PRINCIPAL AMOUNT (000)	DESCRIPTION (1)	OPTIONAL C PROVISIONS
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TAX OBLIGATION/LIMITED - 49.0% (34.5% OF TOTAL INVESTMENTS)

\$	2,750	Arizona School Facilities Board, School Improvement Revenue Bonds, Series 2004A, 5.750%, 7/01/18 - AMBAC Insured	7/14 at 100
	1,000	Arizona Tourism and Sports Authority, Tax Revenue Bonds, Multipurpose Stadium Facility Project, Series 2003A, 5.375%, 7/01/21 - MBIA Insured	7/13 at 100
	98	Centerra Community Facilities District, Goodyear, Arizona, General Obligation Bonds, Series 2005, 5.500%, 7/15/29	7/15 at 100
	187	Estrella Mountain Ranch Community Facilities District, Goodyear, Arizona, Special Assessment Lien Bonds, Series 2001A, 7.875%, 7/01/25	7/10 at 102
	275	Greater Arizona Development Authority, Infrastructure Revenue Bonds, Series 2006A, 5.000%, 8/01/23 - MBIA Insured	8/16 at 100
	1,000	Greater Arizona Development Authority, Infrastructure Revenue Bonds, Series 2006, 5.000%, 8/01/22 - MBIA Insured	8/16 at 100
	1,180	Marana Municipal Property Corporation, Arizona, Revenue Bonds, Series 2003, 5.000%, 7/01/23 - AMBAC Insured	7/13 at 100
	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, Florence West Prison LLC, Series 2002A, 5.000%, 10/01/18 - ACA Insured	No Opt. C
	600	San Luis Civic Improvement Corporation, Arizona, Municipal Facilities Excise Tax Revenue Bonds, Series 2005, 5.000%, 7/01/25 - XLCA Insured	7/15 at 100
	1,000	Tempe, Arizona, Excise Tax Revenue Bonds, Series 2004, 5.250%, 7/01/20 - AMBAC Insured	7/14 at 100
	500	Vistancia Community Facilities District, Arizona, Restricted General Obligation Bonds, Series 2005, 5.750%, 7/15/24	7/15 at 100
	355	Watson Road Community Facilities District, Arizona, Special Assessment Revenue Bonds, Series 2005, 6.000%, 7/01/30	7/16 at 100

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	10,525	Total Tax Obligation/Limited	
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U.S. GUARANTEED - 13.5% (9.5% OF TOTAL INVESTMENTS) (4)

	550	Arizona Health Facilities Authority, Hospital System Revenue Bonds, John C. Lincoln Health Network, Series 2000, 6.875%, 12/01/20 (Pre-refunded 12/01/10)	12/10 at 102
	1,300	Maricopa County Industrial Development Authority, Arizona, Education Revenue Bonds, Horizon Community Learning Center Project, Series 2000, 6.350%, 6/01/26 (Pre-refunded	6/07 at 102

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6/01/07) - ACA Insured

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 100
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2,850	Total U.S. Guaranteed	
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UTILITIES - 23.9% (16.9% OF TOTAL INVESTMENTS)

1,500	Arizona Power Authority, Special Obligation Power Resource Revenue Refunding Crossover Bonds, Hoover Project, Series 2001, 5.250%, 10/01/17	No Opt. C
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1,000	Mesa, Arizona, Utility System Revenue Refunding Bonds, Series 2002, 5.250%, 7/01/17 - FGIC Insured	No Opt. C
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	Puerto Rico Electric Power Authority, Power Revenue Bonds, Series 2005RR:	
1,000	5.000%, 7/01/26 - XLCA Insured	7/15 at 100
170	5.000%, 7/01/27 - XLCA Insured	7/15 at 100

200	Salt River Project Agricultural Improvement and Power District, Arizona, Electric System Revenue Bonds, Series 2002B, 5.000%, 1/01/22	1/13 at 100
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235	Salt River Project Agricultural Improvement and Power District, Arizona, Electric System Revenue Refunding Bonds, Series 1997A, 5.000%, 1/01/20	1/08 at 101
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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
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5,105	Total Utilities	
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PRINCIPAL AMOUNT (000)	DESCRIPTION (1)	OPTIONAL C PROVISIONS
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WATER AND SEWER - 11.1% (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
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200	Phoenix Civic Improvement Corporation, Arizona, Junior Lien Wastewater System Revenue Bonds, Series 2004, 5.000%, 7/01/24 - MBIA Insured	7/14 at 100
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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
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520 Phoenix Civic Improvement Corporation, Arizona, Junior Lien  
 Water System Revenue Bonds, Series 2005,  
 5.000%, 7/01/23 - MBIA Insured

7/15 at 100

2,445	Total Water and Sewer
\$ 30,750	Total Investments (cost \$31,620,171) - 141.9%
	Other Assets Less Liabilities - 10.6%
	Preferred Shares, at Liquidation Value - (52.5)%
	Net Assets Applicable to Common Shares - 100%

- (1) All percentages shown in the Portfolio of Investments are based on net assets applicable to Common shares unless otherwise noted.
- (2) Optional Call Provisions (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 or Moody's rating. Ratings below BBB by Standard & Poor's Group or Baa by Moody's Investor Service, Inc. are considered to be below investment grade.
- (4) Backed by an escrow or trust containing sufficient U.S. Government or U.S. Government agency securities which ensure the timely payment of principal and interest. Such investments are normally considered to be equivalent to AAA rated securities.

N/R Not rated.

See accompanying notes to financial statements.

Nuveen Arizona Dividend Advantage Municipal Fund 2 (NKR)  
 Portfolio of  
 INVESTMENTS July 31, 2006

PRINCIPAL AMOUNT (000)	DESCRIPTION (1)	OPTIONAL C PROVISIONS
	EDUCATION AND CIVIC ORGANIZATIONS - 10.8% (7.3% OF TOTAL INVESTMENTS)	
\$ 1,250	Glendale Industrial Development Authority, Arizona, Revenue Bonds, Midwestern University, Series 2001A, 5.875%, 5/15/31	5/11 at 101

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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	2/09 at 101
480	Tucson Industrial Development Authority, Arizona, Charter School Revenue Bonds, Arizona Agribusiness and Equine Center Charter School, Series 2004A, 6.125%, 9/01/34	9/14 at 100
	University of Arizona, Certificates of Participation, Series 2002A:	
750	5.500%, 6/01/18 - AMBAC Insured	6/12 at 100
500	5.125%, 6/01/22 - AMBAC Insured	6/12 at 100

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3,760 Total Education and Civic Organizations

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HEALTH CARE - 15.3% (10.3% OF TOTAL INVESTMENTS)

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

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5,330 Total Health Care

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HOUSING/MULTIFAMILY - 8.0% (5.4% OF TOTAL INVESTMENTS)

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1,000	Maricopa County Industrial Development Authority, Arizona, GNMA Collateralized Multifamily Housing Revenue Refunding Bonds, Pine Ridge, Cambridge Court, Cove on 44th and Fountain Place Apartments, Series 2001A-1, 6.000%, 10/20/31	10/11 at 105
325	Phoenix Industrial Development Authority, Arizona, GNMA Collateralized Multifamily Housing Revenue Bonds, Park Lee Apartments, Series 2004A, 5.050%, 10/20/44 (Alternative Minimum Tax)	4/15 at 100
1,425	Phoenix Industrial Development Authority, Arizona, GNMA Collateralized Multifamily Housing Revenue Bonds, Summit Apartments, Series 2002, 6.450%, 7/20/32	7/12 at 105
-----		
2,750	Total Housing/Multifamily	
-----		
HOUSING/SINGLE FAMILY - 0.1% (0.1% OF TOTAL INVESTMENTS)		
30	Pima County Industrial Development Authority, Arizona, FNMA/GNMA Single Family Mortgage Revenue Bonds, Series 2001A-1, 5.350%, 11/01/24 (Alternative Minimum Tax)	11/10 at 101

26

PRINCIPAL AMOUNT (000)	DESCRIPTION (1)	OPTIONAL C PROVISIONS
-----		
INDUSTRIALS - 2.2% (1.4% OF TOTAL INVESTMENTS)		
\$ 810	Yavapai County Industrial Development Authority, Arizona, Solid Waste Disposal Revenue Bonds, Waste Management Inc., Series 2003B, 4.450%, 3/01/28 (Mandatory put 3/01/08) (Alternative Minimum Tax)	No Opt. C
-----		
TAX OBLIGATION/GENERAL - 33.7% (22.7% OF TOTAL INVESTMENTS)		
1,725	Chandler, Arizona, General Obligation Bonds, Series 2002, 5.000%, 7/01/17	7/12 at 100
1,000	Maricopa County School District 6, Arizona, General Obligation Refunding Bonds, Washington Elementary School, Series 2002A: 5.375%, 7/01/15 - FSA Insured	No Opt. C
1,000	5.375%, 7/01/16 - FSA Insured	No Opt. C
1,165	Maricopa County Unified School District 69, Paradise Valley, Arizona, General Obligation Refunding Bonds, Series 2002A, 5.250%, 7/01/14 - FGIC Insured	No Opt. C
375	Maricopa County Union High School District 210 Phoenix, Arizona, General Obligation Bonds, Series 2006C, 5.000%, 7/01/24 - MBIA Insured	7/16 at 100
1,000	Mesa, Arizona, General Obligation Bonds, Series 2000,	No Opt. C

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	6.500%, 7/01/11 - FGIC Insured	
1,405	Mesa, Arizona, General Obligation Bonds, Series 2002, 5.375%, 7/01/15 - FGIC Insured	No Opt. C
	Phoenix, Arizona, Various Purpose General Obligation Bonds, Series 2002B:	
1,700	5.000%, 7/01/22	7/12 at 100
500	5.000%, 7/01/27	7/12 at 100
1,000	Pinal County Unified School District 43, Apache Junction, Arizona, General Obligation Refunding Bonds, Series 2001, 5.750%, 7/01/15 - FGIC Insured	No Opt. C
510	Scottsdale, Arizona, General Obligation Bonds, Series 2002, 5.000%, 7/01/24	7/11 at 100
-----		
11,380	Total Tax Obligation/General	
-----		

TAX OBLIGATION/LIMITED - 42.0% (28.3% OF TOTAL INVESTMENTS)

	Arizona State, Certificates of Participation, Series 2002A:	
750	5.000%, 11/01/17 - MBIA Insured	5/12 at 100
1,000	5.000%, 11/01/18 - MBIA Insured	5/12 at 100
500	5.000%, 11/01/20 - MBIA Insured	5/12 at 100
138	Centerra Community Facilities District, Goodyear, Arizona, General Obligation Bonds, Series 2005, 5.500%, 7/15/29	7/15 at 100
296	Estrella Mountain Ranch Community Facilities District, Goodyear, Arizona, Special Assessment Lien Bonds, Series 2001A, 7.875%, 7/01/25	7/10 at 102
670	Goodyear Community Facilities Utility District 1, Arizona, General Obligation Bonds, Series 2003, 5.350%, 7/15/28 - ACA Insured	7/13 at 100
435	Greater Arizona Development Authority, Infrastructure Revenue Bonds, Series 2006A, 5.000%, 8/01/23 - MBIA Insured	8/16 at 100
870	Maricopa County Public Finance Corporation, Arizona, Lease Revenue Bonds, Series 2001, 5.500%, 7/01/15 - AMBAC Insured	7/11 at 100
	Maricopa County Stadium District, Arizona, Revenue Refunding Bonds, Series 2002:	
840	5.375%, 6/01/18 - AMBAC Insured	6/12 at 100
2,645	5.375%, 6/01/19 - AMBAC Insured	6/12 at 100
1,500	Phoenix Industrial Development Authority, Arizona, Government Bonds, Capitol Mall LLC II, Series 2001, 5.250%, 9/15/16 - AMBAC Insured	3/12 at 100
1,070	Pinal County Industrial Development Authority, Arizona, Correctional Facilities Contract Revenue Bonds, Florence West Prison LLC, Series 2002A, 5.000%, 10/01/18 - ACA Insured	No Opt. C
1,000	Puerto Rico Public Buildings Authority, Guaranteed Government Facilities Revenue Refunding Bonds, Series 2002D,	7/12 at 100

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5.125%, 7/01/24

960	San Luis Civic Improvement Corporation, Arizona, Municipal Facilities Excise Tax Revenue Bonds, Series 2005, 5.000%, 7/01/25 - XLCA Insured	7/15 at 100
750	Vistancia Community Facilities District, Arizona, Restricted General Obligation Bonds, Series 2005, 5.750%, 7/15/24	7/15 at 100

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Nuveen Arizona Dividend Advantage Municipal Fund 2 (NKR) (continued)  
Portfolio of INVESTMENTS July 31, 2006

PRINCIPAL AMOUNT (000)	DESCRIPTION (1)	OPTIONAL C PROVISIONS
TAX OBLIGATION/LIMITED (continued)		
\$ 560	Watson Road Community Facilities District, Arizona, Special Assessment Revenue Bonds, Series 2005, 6.000%, 7/01/30	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
14,624 Total Tax Obligation/Limited		
TRANSPORTATION - 5.6% (3.8% OF TOTAL INVESTMENTS)		
1,000	Phoenix Civic Improvement Corporation, Arizona, Senior Lien Airport Revenue Bonds, Series 1998A, 5.000%, 7/01/25 - FSA Insured	7/08 at 101
1,000	Phoenix, Arizona, Civic Improvement Corporation, Senior Lien Airport Revenue Bonds, Series 2002B, 5.250%, 7/01/27 - FGIC Insured (Alternative Minimum Tax)	7/12 at 100
2,000 Total Transportation		
U.S. GUARANTEED - 14.2% (9.5% OF TOTAL INVESTMENTS) (4)		
715	Arizona State University, System Revenue Bonds, Series 2002, 5.750%, 7/01/27 (Pre-refunded 7/01/12) - FGIC Insured	7/12 at 100
100	Maricopa County Unified School District 89, Dysart, Arizona, General Obligation Bonds, Series 2004B, 5.250%, 7/01/20 (Pre-refunded 7/01/14) - FSA Insured	7/14 at 100
1,000	Mesa, Arizona, Street and Highway User Tax Revenue Bonds, Series 2004, 5.125%, 7/01/23 (Pre-refunded 7/01/14) - FSA Insured	7/14 at 100



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1,000	Mesa, Arizona, Utility System Revenue Bonds, Series 2002, 5.000%, 7/01/20 (Pre-refunded 7/01/11) - FGIC Insured	7/11 at 100
1,000	Scottsdale Industrial Development Authority, Arizona, Hospital Revenue Bonds, Scottsdale Healthcare, Series 2001, 5.800%, 12/01/31 (Pre-refunded 12/01/11)	12/11 at 101
990	Scottsdale, Arizona, General Obligation Bonds, Series 2002, 5.000%, 7/01/24 (Pre-refunded 7/01/11)	7/11 at 100
-----		
4,805	Total U.S. Guaranteed	
-----		

UTILITIES - 5.0% (3.4% OF TOTAL INVESTMENTS)

1,115	Arizona Power Authority, Special Obligation Power Resource Revenue Refunding Crossover Bonds, Hoover Project, Series 2001, 5.250%, 10/01/15	No Opt. C
270	Puerto Rico Electric Power Authority, Power Revenue Bonds, Series 2005RR, 5.000%, 7/01/27 - XLCA Insured	7/15 at 100
320	Salt River Project Agricultural Improvement and Power District, Arizona, Electric System Revenue Bonds, Series 2002B, 5.000%, 1/01/22	1/13 at 100
-----		
1,705	Total Utilities	
-----		

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PRINCIPAL AMOUNT (000)	DESCRIPTION (1)	OPTIONAL C PROVISIONS
-----		
WATER AND SEWER - 11.7% (7.8% OF TOTAL INVESTMENTS)		
\$ 500	Maricopa County Industrial Development Authority, Arizona, Water System Improvement Revenue Bonds, Chaparral City Water Company, Series 1997A, 5.400%, 12/01/22 - AMBAC Insured (Alternative Minimum Tax)	12/07 at 102
360	Oro Valley Municipal Property Corporation, Arizona, Senior Lien Water Revenue Bonds, Series 2003, 5.000%, 7/01/23 - MBIA Insured	7/13 at 100
320	Phoenix Civic Improvement Corporation, Arizona, Junior Lien Wastewater System Revenue Bonds, Series 2004, 5.000%, 7/01/24 - MBIA Insured	7/14 at 100
765	Phoenix Civic Improvement Corporation, Arizona, Junior Lien Water System Revenue Bonds, Series 2005, 5.000%, 7/01/23 - MBIA Insured	7/15 at 100
1,000	Phoenix Civic Improvement Corporation, Arizona, Junior Lien Water System Revenue Refunding Bonds, Series 2001, 5.500%, 7/01/22 - FGIC Insured	No Opt. C

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	1,000	Tucson, Arizona, Water System Revenue Refunding Bonds, Series 2002, 5.500%, 7/01/18 - FGIC Insured	7/12 at 102
-----			
	3,945	Total Water and Sewer	
-----			
\$	51,139	Total Investments (cost \$52,113,142) - 148.6%	
=====			
		Other Assets Less Liabilities - 2.1%	
-----			
		Preferred Shares, at Liquidation Value - (50.7)%	
-----			
		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 or Moody's rating. Ratings below BBB by Standard & Poor's Group or Baa by Moody's Investor Service, Inc. are considered to be below investment grade.
- (4) Backed by an escrow or trust containing sufficient U.S. Government or U.S. Government agency securities which ensure the timely payment of principal and interest. Such investments are normally considered to be equivalent to AAA rated securities.

N/R Not rated.

See accompanying notes to financial statements.

Nuveen Arizona Dividend Advantage Municipal Fund 3 (NXE)  
Portfolio of  
INVESTMENTS July 31, 2006

	PRINCIPAL AMOUNT (000)	DESCRIPTION (1)	OPTIONAL C PROVISIONS
-----			
		CONSUMER STAPLES - 1.2% (1.0% OF TOTAL INVESTMENTS)	
\$	575	Puerto Rico, The Children's Trust Fund, Tobacco Settlement Asset-Backed Refunding Bonds, Series 2002, 5.375%, 5/15/33	5/12 at 100
-----			

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EDUCATION AND CIVIC ORGANIZATIONS - 16.2% (10.8% OF TOTAL INVESTMENTS)

1,250	Arizona State University, System Revenue Bonds, Series 2005, 5.000%, 7/01/20 - AMBAC Insured	7/15 at 100
1,000	Arizona Student Loan Acquisition Authority, Student Loan Revenue Refunding Bonds, Senior Series 1999A-1, 5.750%, 5/01/15 (Alternative Minimum Tax)	11/09 at 102
1,130	Energy Management Services LLC, Arizona State University, Energy Conservation Revenue Bonds, Main Campus Project, Series 2002, 5.250%, 7/01/18 - MBIA Insured	7/12 at 100
270	Glendale Industrial Development Authority, Arizona, Revenue Bonds, Midwestern University, Series 1998A, 5.375%, 5/15/28	5/08 at 101
540	Pima County Industrial Development Authority, Arizona, Charter School Revenue Bonds, Noah Webster Basic Schools Inc., Series 2004, 6.000%, 12/15/24	12/14 at 100
565	Tucson Industrial Development Authority, Arizona, Charter School Revenue Bonds, Arizona Agribusiness and Equine Center Charter School, Series 2004A, 6.125%, 9/01/34	9/14 at 100
2,000	University of Arizona, Certificates of Participation, Series 2002B, 5.125%, 6/01/20 - AMBAC Insured	6/12 at 100
-----		
6,755	Total Education and Civic Organizations	
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HEALTH CARE - 17.7% (11.9% OF TOTAL INVESTMENTS)

300	Arizona Health Facilities Authority, Hospital Revenue Bonds, Catholic Healthcare West, Series 1999A, 6.625%, 7/01/20	7/10 at 101
	Arizona Health Facilities Authority, Hospital System Revenue Bonds, Phoenix Children's Hospital, Series 1999A:	
350	6.125%, 11/15/22	11/09 at 100
520	6.250%, 11/15/29	11/09 at 100
625	Arizona Health Facilities Authority, Revenue Bonds, Blood Systems Inc., Series 2004, 5.000%, 4/01/20	4/14 at 100
475	Glendale Industrial Development Authority, Arizona, Revenue Bonds, John C. Lincoln Health Network, Series 2005B, 5.000%, 12/01/37	12/15 at 100
390	Maricopa County Industrial Development Authority, Arizona, Health Facilities Revenue Bonds, Mayo Clinic, Series 2006, 5.000%, 11/15/36	5/16 at 100
1,825	Maricopa County Industrial Development Authority, Arizona, Health Facility Revenue Bonds, Catholic Healthcare West, Series 2004A, 5.375%, 7/01/23	7/14 at 100
2,000	Maricopa County Industrial Development Authority, Arizona, Hospital Revenue Bonds, Mayo Clinic Hospital, Series 1998, 5.250%, 11/15/37	5/08 at 101

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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
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7,485	Total Health Care	
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PRINCIPAL AMOUNT (000)	DESCRIPTION (1)	OPTIONAL C PROVISIONS
HOUSING/MULTIFAMILY - 4.5% (3.0% OF TOTAL INVESTMENTS)		
\$ 1,545	Phoenix Industrial Development Authority, Arizona, GNMA Collateralized Multifamily Housing Revenue Bonds, Campagne Place on Jackson, Series 2001, 5.600%, 6/20/21 (Alternative Minimum Tax)	6/11 at 102
380	Phoenix Industrial Development Authority, Arizona, GNMA Collateralized Multifamily Housing Revenue Bonds, Park Lee Apartments, Series 2004A, 5.050%, 10/20/44 (Alternative Minimum Tax)	4/15 at 100
1,925 Total Housing/Multifamily		
INDUSTRIALS - 2.2% (1.4% OF TOTAL INVESTMENTS)		
945	Yavapai County Industrial Development Authority, Arizona, Solid Waste Disposal Revenue Bonds, Waste Management Inc., Series 2003B, 4.450%, 3/01/28 (Mandatory put 3/01/08) (Alternative Minimum Tax)	3/28 at 100
TAX OBLIGATION/GENERAL - 19.8% (13.3% OF TOTAL INVESTMENTS)		
660	Chandler, Arizona, General Obligation Bonds, Series 2002, 5.000%, 7/01/18	7/12 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
1,930	Glendale, Arizona, General Obligation Refunding Bonds, Series 2002, 5.000%, 7/01/19	7/11 at 100
1,000	Maricopa County Unified School District 11, Peoria, Arizona, General Obligation Refunding Bonds, Series 2002, 5.000%, 7/01/15 - FSA Insured	No Opt. C
445	Maricopa County Union High School District 210 Phoenix, Arizona, General Obligation Bonds, Series 2006C, 5.000%, 7/01/24 - MBIA Insured	7/16 at 100

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1,575	Maricopa County Union High School District 210, Phoenix, Arizona, General Obligation Bonds, Series 2004A, 5.000%, 7/01/20 - FSA Insured	7/14 at 100
440	Tucson, Arizona, General Obligation Bonds, Series 2001B, 5.000%, 7/01/20	7/11 at 100
8,300	Total Tax Obligation/General	

TAX OBLIGATION/LIMITED - 39.7% (26.7% OF TOTAL INVESTMENTS)

3,000	Arizona State Transportation Board, Highway Revenue Refunding Bonds, Series 2002A, 5.250%, 7/01/18	7/12 at 102
2,660	Arizona Tourism and Sports Authority, Tax Revenue Bonds, Multipurpose Stadium Facility Project, Series 2003A, 5.375%, 7/01/20 - MBIA Insured	7/13 at 100
158	Centerra Community Facilities District, Goodyear, Arizona, General Obligation Bonds, Series 2005, 5.500%, 7/15/29	7/15 at 100
346	Estrella Mountain Ranch Community Facilities District, Goodyear, Arizona, Special Assessment Lien Bonds, Series 2001A, 7.875%, 7/01/25	7/10 at 102
800	Goodyear Community Facilities Utility District 1, Arizona, General Obligation Bonds, Series 2003, 5.350%, 7/15/28 - ACA Insured	7/13 at 100
525	Greater Arizona Development Authority, Infrastructure Revenue Bonds, Series 2006A, 5.000%, 8/01/23 - MBIA Insured	8/16 at 100
2,000	Mohave County, Arizona, Certificates of Participation, Series 2004, 5.250%, 7/01/19 - AMBAC Insured	7/14 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. C
1,130	San Luis Civic Improvement Corporation, Arizona, Municipal Facilities Excise Tax Revenue Bonds, Series 2005, 5.000%, 7/01/25 - XLCA Insured	7/15 at 100
2,770	Tempe, Arizona, Excise Tax Revenue Refunding Bonds, Series 2003, 5.000%, 7/01/22	7/13 at 100

PRINCIPAL AMOUNT (000)	DESCRIPTION (1)	OPTIONAL C PROVISIONS
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TAX OBLIGATION/LIMITED (continued)

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\$	1,250	Vistancia Community Facilities District, Arizona, Restricted General Obligation Bonds, Series 2005, 5.750%, 7/15/24	7/15 at 100
	665	Watson Road Community Facilities District, Arizona, Special Assessment Revenue Bonds, Series 2005, 6.000%, 7/01/30	7/16 at 100

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	16,554	Total Tax Obligation/Limited	
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TRANSPORTATION - 13.6% (9.1% 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
	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

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	5,750	Total Transportation	
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U.S. GUARANTEED - 10.6% (7.1% OF TOTAL INVESTMENTS) (4)

	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
	200	Arizona School Facilities Board, School Improvement Revenue Bonds, Series 2002, 5.250%, 7/01/20 (Pre-refunded 7/01/12)	7/12 at 100
	1,760	Arizona State University, System Revenue Bonds, Series 2002, 5.750%, 7/01/27 (Pre-refunded 7/01/12) - FGIC Insured	7/12 at 100
	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

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	4,210	Total U.S. Guaranteed	
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UTILITIES - 12.3% (8.2% OF TOTAL INVESTMENTS)

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

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360	5.000%, 1/01/22	1/13 at 100
1,000	5.000%, 1/01/31	1/13 at 100

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5,205	Total Utilities	
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WATER AND SEWER - 11.2% (7.5% OF TOTAL INVESTMENTS)

405	Oro Valley Municipal Property Corporation, Arizona, Senior Lien Water Revenue Bonds, Series 2003, 5.000%, 7/01/23 - MBIA Insured	7/13 at 100
380	Phoenix Civic Improvement Corporation, Arizona, Junior Lien Wastewater System Revenue Bonds, Series 2004, 5.000%, 7/01/24 - MBIA Insured	7/14 at 100
1,000	Phoenix Civic Improvement Corporation, Arizona, Junior Lien Wastewater System Revenue Refunding Bonds, Series 2001, 5.125%, 7/01/21 - FGIC Insured	7/11 at 100

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PRINCIPAL AMOUNT (000)	DESCRIPTION (1)	OPTIONAL C PROVISIONS
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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
920	Phoenix Civic Improvement Corporation, Arizona, Junior Lien Water System Revenue Bonds, Series 2005, 5.000%, 7/01/23 - MBIA Insured	7/15 at 100

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4,705	Total Water and Sewer	
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\$ 62,409	Total Investments (cost \$64,070,644) - 149.0%	
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Other Assets Less Liabilities - 1.1%

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Preferred Shares, at Liquidation Value - (50.1)%

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Net Assets Applicable to Common Shares - 100%

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FORWARD SWAPS OUTSTANDING AT JULY 31, 2006:

COUNTERPARTY	NOTIONAL AMOUNT	FIXED RATE	FIXED RATE PAYMENT FREQUENCY	FLOATING RATE	FLOATING RATE PAYMENT FREQUENCY	EFF DA
		PAID BY THE FUND (ANNUALIZED)		RECEIVED BY THE FUND BASED ON		
Goldman Sachs	\$500,000	4.013%	Quarterly	BMA	Quarterly	9

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Merrill Lynch 900,000 4.021 Quarterly BMA Quarterly 9

BMA - The daily arithmetic average of the weekly BMA (Bond Market Association) Municipal Swap Index.

- (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 or Moody's rating. Ratings below BBB by Standard & Poor's Group or Baa by Moody's Investor Service, Inc. are considered to be below investment grade.
- (4) Backed by an escrow or trust containing sufficient U.S. Government or U.S. Government agency securities which ensure the timely payment of principal and interest. Such investments are normally considered to be equivalent to AAA rated securities.
- (5) Effective date represents the date on which both the Fund and counterparty commence interest payment accruals on each forward swap contract.

N/R Not rated.

See accompanying notes to financial statements.

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Nuveen Texas Quality Income Municipal Fund (NTX)  
 Portfolio of  
 INVESTMENTS July 31, 2006

PRINCIPAL AMOUNT (000)	DESCRIPTION (1)	OPTIONAL C PROVISIONS
	CONSUMER STAPLES - 2.0% (1.4% OF TOTAL INVESTMENTS)	
\$ 2,695	Puerto Rico, The Children's Trust Fund, Tobacco Settlement Asset-Backed Refunding Bonds, Series 2002, 5.375%, 5/15/33	5/12 at 100

EDUCATION AND CIVIC ORGANIZATIONS - 14.5% (10.0% OF TOTAL INVESTMENTS)



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	Red River Education Finance Corporation, Texas, Revenue Bonds, Hockaday School, Series 2005:		
1,170	5.000%, 5/15/27		5/15 at 100
1,230	5.000%, 5/15/28		5/15 at 100
1,290	5.000%, 5/15/29		5/15 at 100
	Texas Public Finance Authority, Revenue Bonds, Texas Southern University Financing System, Series 2003:		
1,710	5.000%, 5/01/18 - FGIC Insured		5/13 at 100
1,795	5.000%, 5/01/19 - FGIC Insured		5/13 at 100
1,885	5.000%, 5/01/20 - FGIC Insured		5/13 at 100
1,665	Texas State University System, Financing Revenue Bonds, Series 2004, 5.000%, 3/15/24 - FSA Insured		9/14 at 100
2,000	Texas State University System, Financing Revenue Refunding Bonds, Series 2002, 5.000%, 3/15/20 - FSA Insured		3/12 at 100
2,330	Universal City Education Facilities Corporation, Texas, Revenue Bonds, Wayland Baptist University Project, Series 2001, 5.625%, 3/01/26		3/11 at 102
5,000	University of North Texas, Financing System Revenue Bonds, Series 2001, 5.000%, 4/15/24 - FSA Insured		4/12 at 100
-----			
20,075	Total Education and Civic Organizations		
-----			
	ENERGY - 2.2% (1.5% OF TOTAL INVESTMENTS)		
3,000	Gulf Coast Waste Disposal Authority, Texas, Waste Disposal Revenue Bonds, Valero Energy Corporation Project, Series 1998, 5.600%, 4/01/32 (Alternative Minimum Tax)		4/08 at 102
-----			
	HEALTH CARE - 19.3% (13.3% OF TOTAL INVESTMENTS)		
3,500	Abilene Health Facilities Development Corporation, Texas, Hospital Revenue Refunding and Improvement Bonds, Hendrick Medical Center Project, Series 1995C, 6.150%, 9/01/25 - MBIA Insured		9/06 at 101
	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
	Gregg County Health Facilities Development Corporation, Texas, Hospital Revenue Bonds, Good Shepherd Medical Center Project, Series 2000:		
2,000	6.875%, 10/01/20 - RAAI Insured		10/10 at 101
3,250	6.375%, 10/01/25 - RAAI Insured		10/10 at 101
5,750	Midland County Hospital District, Texas, Hospital Revenue Bonds, Series 1992, 0.000%, 6/01/11		No Opt. C
2,000	North Central Texas Health Facilities Development Corporation, Hospital Revenue Bonds, Baylor Healthcare System, Series 2001A, 5.125%, 5/15/29		5/11 at 100

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1,760	Parker County Hospital District, Texas, Hospital Revenue Bonds, Campbell Health System, Series 1999, 6.250%, 8/15/19	8/09 at 102
2,000	Richardson Hospital Authority, Texas, Revenue Bonds, Richardson Regional Medical Center, Series 2004, 5.875%, 12/01/24	12/13 at 100
1,050	Tarrant County Health Facilities Development Corporation, Texas, Hospital Revenue Bonds, Adventist Health System - Sunbelt Obligated Group, Series 1998, 5.375%, 11/15/20	11/08 at 101

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PRINCIPAL AMOUNT (000)	DESCRIPTION (1)	OPTIONAL C PROVISIONS
-----		
	HEALTH CARE (continued)	
\$ 2,000	Tom Green County Health Facilities Development Corporation, Texas, Hospital Revenue Bonds, Shannon Health System Project, Series 2001, 6.750%, 5/15/21	5/11 at 101
1,000	Tyler Health Facilities Development Corporation, Texas, Hospital Revenue Bonds, Mother Frances Hospital Regional Healthcare Center, Series 2001, 6.000%, 7/01/31	7/12 at 100
-----		
27,890	Total Health Care	
-----		
	HOUSING/MULTIFAMILY - 3.5% (2.4% OF TOTAL INVESTMENTS)	
	Bexar County Housing Finance Corporation, Texas, Insured Multifamily Housing Revenue Bonds, Waters at Northern Hills Apartments Project, Series 2001A:	
2,000	6.000%, 8/01/31 - MBIA Insured	8/11 at 102
750	6.050%, 8/01/36 - MBIA Insured	8/11 at 102
2,064	Houston Housing Finance Corporation, Texas, GNMA Collateralized Mortgage Multifamily Housing Revenue Bonds, RRG Apartments Project, Series 2001, 6.250%, 9/20/35	9/11 at 105
-----		
4,814	Total Housing/Multifamily	
-----		
	HOUSING/SINGLE FAMILY - 4.1% (2.8% OF TOTAL INVESTMENTS)	
2,608	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
135	Galveston Property Finance Authority Inc., Texas, Single Family Mortgage Revenue Bonds, Series 1991A, 8.500%, 9/01/11	9/06 at 100
2,900	Texas Department of Housing and Community Affairs, Single	3/12 at 100

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Family Mortgage Bonds, Series 2002B, 5.550%, 9/01/33 -  
MBIA Insured (Alternative Minimum Tax)

55	Victoria Housing Finance Corporation, Texas, FNMA Single Family Mortgage Revenue Refunding Bonds, Series 1995, 8.125%, 1/01/11	No Opt. C
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5,698	Total Housing/Single Family
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LONG-TERM CARE - 5.9% (4.1% OF TOTAL INVESTMENTS)

Bell County Health Facilities Development Corporation, Texas,  
Retirement Facility Revenue Bonds, Buckner Retirement Services  
Inc. Obligated Group, Series 1998:

3,400	5.250%, 11/15/19	11/08 at 101
5,000	5.250%, 11/15/28	11/08 at 101

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8,400	Total Long-Term Care
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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
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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)	10/06 at 102
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6,000	Total Materials
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TAX OBLIGATION/GENERAL - 41.0% (28.2% 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
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1,190	Canutillo Independent School District, El Paso County, Texas, General Obligation Bonds, Series 2006A, 5.000%, 8/15/22	8/15 at 100
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4,130	Coppell Independent School District, Dallas County, Texas, Unlimited Tax School Building and Refunding Bonds, Series 1992, 0.000%, 8/15/14 - MBIA Insured	8/09 at 75
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1,275	Copperas Cove, Texas, Certificates of Obligation, Series 2003, 5.000%, 8/15/23 - MBIA Insured	8/12 at 100
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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
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2,595	Denton County, Texas, Permanent Improvement General	7/12 at 100
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Obligation Bonds, Series 2005, 5.000%, 7/15/25

2,110 Duncanville Independent School District, Dallas County, Texas, 2/15 at 100  
 General Obligation Bonds, Series 2005, 5.000%, 2/15/26

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Nuveen Texas Quality Income Municipal Fund (NTX) (continued)  
 Portfolio of INVESTMENTS July 31, 2006

PRINCIPAL AMOUNT (000)	DESCRIPTION (1)	OPTIONAL C PROVISIONS
TAX OBLIGATION/GENERAL (continued)		
\$ 1,750	El Paso County, Texas, Certificates of Obligation, Series 2001, 5.000%, 2/15/21 - FSA Insured	No Opt. C
	Fort Bend County Municipal Utility District 25, Texas, General Obligation Bonds, Series 2005:	
1,330	5.000%, 10/01/26 - FGIC Insured	10/12 at 100
1,320	5.000%, 10/01/27 - FGIC Insured	10/12 at 100
3,615	Frisco, Texas, General Obligation Bonds, Series 2006, 5.000%, 2/15/26 (WI/DD, Settling 8/10/06) - FGIC Insured	2/16 at 100
	Houston Community College, Texas, Limited Tax General Obligation Bonds, Series 2003:	
2,500	5.000%, 2/15/20 - AMBAC Insured	2/13 at 100
2,235	5.000%, 2/15/21 - AMBAC Insured	2/13 at 100
5,000	Houston, Texas, General Obligation Bonds, Series 2005E, 5.000%, 3/01/23 - AMBAC Insured	3/15 at 100
1,500	Judson Independent School District, Bexar County, Texas, General Obligation Refunding Bonds, Series 2002, 5.250%, 2/01/21	2/11 at 100
5,220	Leander Independent School District, Williamson and Travis Counties, Texas, Unlimited Tax School Building and Refunding Bonds, Series 2000, 0.000%, 8/15/21	8/09 at 46
1,000	Mansfield Independent School District, Tarrant County, Texas, General Obligation Bonds, Series 2004, 5.000%, 2/15/20	2/14 at 100
1,010	Mercedes Independent School District, Hidalgo County, Texas, General Obligation Bonds, Series 2005, 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
1,545	Montgomery County, Texas, General Obligation Refunding Bonds, Series 1997, 0.000%, 3/01/14 - MBIA Insured	9/07 at 72
925	Northside Independent School District, Bexar County, Texas, Unlimited Tax School Building and Refunding Bonds, Series 2000, 5.875%, 8/15/25	8/10 at 100
1,255	Pasadena, Texas, Certificates of Obligation, Series 2002, 5.125%, 4/01/24 - FGIC Insured	4/11 at 100

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500	Puerto Rico, General Obligation and Public Improvement Bonds, Series 2001A, 5.500%, 7/01/29	No Opt. C
	Roma Independent School District, Texas, General Obligation Bonds, Series 2005:	
1,110	5.000%, 8/15/22	8/15 at 100
1,165	5.000%, 8/15/23 - FSA Insured	8/15 at 100
1,440	South Texas Community College District, General Obligation Bonds, Series 2002, 5.500%, 8/15/17 - AMBAC Insured	8/12 at 100
1,250	Southside Independent School District, Bexar County, Texas, General Obligation Bonds, Series 2004A, 5.000%, 8/15/22	8/14 at 100
1,140	Sunnyvale School District, Texas, General Obligation Bonds, Series 2004, 5.250%, 2/15/25	2/14 at 100
2,000	Texas, General Obligation Bonds, Water Financial Assistance Program, Series 2001, 5.250%, 8/01/23	8/11 at 100
1,500	Texas, General Obligation Refunding Bonds, Public Finance Authority, Series 2002, 5.000%, 10/01/18	10/12 at 100
	West Texas Independent School District, McLennan and Hill Counties, General Obligation Refunding Bonds, Series 1998:	
1,000	0.000%, 8/15/22	8/13 at 61
1,000	0.000%, 8/15/24	8/13 at 54

-----  
62,690 Total Tax Obligation/General  
-----

TAX OBLIGATION/LIMITED - 3.6% (2.4% OF TOTAL INVESTMENTS)

2,250	Harris County-Houston Sports Authority, Texas, Senior Lien Revenue Bonds, Series 2001G, 5.250%, 11/15/22 - MBIA Insured	11/11 at 100
2,685	San Antonio, Texas, Hotel Occupancy Tax Revenue Bonds, Henry B. Gonzalez Convention Center Project, Series 1996, 5.700%, 8/15/26 - FGIC Insured	8/06 at 102

-----  
4,935 Total Tax Obligation/Limited  
-----

PRINCIPAL AMOUNT (000)	DESCRIPTION (1)	OPTIONAL C PROVISIONS
	TRANSPORTATION - 6.4% (4.4% 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	1/15 at 100

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	Williamson Counties, Toll Road Revenue Bonds, Series 2005, 5.000%, 1/01/22 - FGIC Insured	
2,600	Dallas-Ft. Worth International Airport Facility Improvement Corporation, Texas, Revenue Bonds, American Airlines Inc., Series 1999, 6.375%, 5/01/35 (Alternative Minimum Tax)	11/09 at 101
2,000	Houston, Texas, Subordinate Lien Airport System Revenue Bonds, Series 2000A, 5.625%, 7/01/30 - FSA Insured (Alternative Minimum Tax)	7/10 at 100
-----		
8,860	Total Transportation	
-----		
	U.S. GUARANTEED - 18.1% (12.5% OF TOTAL INVESTMENTS) (4)	
2,000	Harris County Health Facilities Development Corporation, Texas, Hospital Revenue Bonds, Memorial Hermann Healthcare System, Series 2001A, 6.375%, 6/01/29 (Pre-refunded 6/01/11)	6/11 at 101
1,500	Harris County Health Facilities Development Corporation, Texas, Revenue Bonds, St. Luke's Episcopal Hospital, Series 2001A, 5.500%, 2/15/21 (Pre-refunded 8/15/11)	8/11 at 100
1,000	North Central Texas Health Facilities Development Corporation, Hospital Revenue Bonds, Presbyterian Healthcare System, Series 1996B, 5.750%, 6/01/26 - MBIA Insured (ETM)	No Opt. C
1,075	Northside Independent School District, Bexar County, Texas, Unlimited Tax School Building and Refunding Bonds, Series 2000, 5.875%, 8/15/25 (Pre-refunded 8/15/10)	8/10 at 100
2,500	Retama Development Corporation, Texas, Special Facilities Revenue Bonds, Retama Park Racetrack, Series 1993, 8.750%, 12/15/18 (Pre-refunded 12/15/17) (5)	12/17 at 100
1,750	San Antonio, Texas, Electric and Gas System Revenue Refunding Bonds, Series 2002, 5.375%, 2/01/20 (Pre-refunded 2/01/12)	2/12 at 100
3,500	Tarrant County Health Facilities Development Corporation, Texas, Hospital Revenue Bonds, Adventist Health System - Sunbelt Obligated Group, Series 2000, 6.625%, 11/15/20 (Pre-refunded 11/15/10)	11/10 at 101
2,000	Tarrant County Health Facilities Development Corporation, Texas, Tax-Exempt Mortgage Revenue Bonds, South Central Nursing Homes Inc., Series 1997A, 6.000%, 1/01/37 (Pre-refunded 1/01/08) - MBIA Insured	1/08 at 105
1,165	Texas Department of Housing, Single Family Mortgage Revenue Bonds, Series 1996E, 6.000%, 9/01/17 (Pre-refunded 9/01/06) - MBIA Insured	9/06 at 102
1,795	United Independent School District, Webb County, Texas, Unlimited Tax School Building Bonds, Series 2000, 5.375%, 8/15/18 (Pre-refunded 8/15/12)	8/12 at 100
5,290	Weslaco Independent School District, Hidalgo County, Texas, General Obligation School Building Bonds, Series 2000, 5.500%, 2/15/25 (Pre-refunded 2/15/10)	2/10 at 100

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23,575	Total U.S. Guaranteed	
<p>UTILITIES - 9.6% (6.6% OF TOTAL INVESTMENTS)</p>		
2,560	Brazos River Authority, Texas, Pollution Control Revenue Refunding Bonds, TXU Electric Company, Series 1999C, 7.700%, 3/01/32 (Alternative Minimum Tax)	4/13 at 101
2,400	Brazos River Authority, Texas, Revenue Bonds, Reliant Energy Inc., Series 1999A, 5.375%, 4/01/19	4/09 at 101
5,000	Brownsville, Texas, Utility System Priority Revenue Bonds, Series 2005A, 5.000%, 9/01/27 - AMBAC Insured	9/15 at 100
2,000	Harris County Health Facilities Development Corporation, Texas, Thermal Utility Revenue Bonds, TECO Project, Series 2000, 5.750%, 2/15/15 - AMBAC Insured (Alternative Minimum Tax)	2/10 at 100
1,000	Matagorda County Navigation District 1, Texas, Revenue Bonds, Reliant Energy Inc., Series 1999B, 5.950%, 5/01/30 (Alternative Minimum Tax)	5/09 at 101
12,960	Total Utilities	

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Nuveen Texas Quality Income Municipal Fund (NTX) (continued)  
Portfolio of INVESTMENTS July 31, 2006

PRINCIPAL AMOUNT (000)	DESCRIPTION (1)	OPTIONAL C PROVISIONS
<p>WATER AND SEWER - 10.8% (7.4% OF TOTAL INVESTMENTS)</p>		
\$ 1,005	Coastal Water Authority, Texas, Contract Revenue Bonds, Houston Water Projects, Series 2004: 5.000%, 12/15/20 - FGIC Insured	12/14 at 100
1,030	5.000%, 12/15/21 - FGIC Insured	12/14 at 100
3,000	Houston, Texas, First Lien Combined Utility System Revenue Bonds, Series 2004A, 5.250%, 5/15/23 - FGIC Insured	5/14 at 100
3,500	Houston, Texas, Junior Lien Water and Sewerage System Revenue Refunding Bonds, Series 2001A, 5.500%, 12/01/17 - FSA Insured	12/11 at 100
1,680	Irving, Texas, Subordinate Lien Waterworks and Sewerage Revenue Bonds, Series 2004: 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,	3/14 at 100

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5.000%, 3/01/22 - MBIA Insured

1,500	Texas Water Development Board, Senior Lien State Revolving Fund Revenue Bonds, Series 1999A, 5.500%, 7/15/21	7/09 at 100
-----		
14,735	Total Water and Sewer	
-----		
\$ 206,327	Total Investments (cost \$200,103,411) - 145.4%	
=====		
	Other Assets Less Liabilities - 2.8%	
-----		
	Preferred Shares, at Liquidation Value - (48.2)%	
-----		
	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 or Moody's rating. Ratings below BBB by Standard & Poor's Group or Baa by Moody's Investor Service, Inc. are considered to be below investment grade.
- (4) Backed by an escrow or trust containing sufficient U.S. Government or U.S. Government agency securities which ensure the timely payment of principal and interest. Such investments are normally considered to be equivalent to AAA rated securities.
- (5) The issuer has received a proposed adverse determination from the Internal Revenue Service (the "IRS") regarding the tax-exempt status of the bonds' coupon payments. The Fund will continue to treat coupon payments as tax-exempt income until such time that it is formally determined that the interest on the bonds should be treated as taxable.

WI/DD Purchased on a when-issued or delayed delivery basis.

(ETM) Escrowed to maturity.

See accompanying notes to financial statements.



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	ARIZONA PREMIUM INCOME (NAZ)	ARIZONA DIVIDEND ADVANTAGE (NFZ)	ARIZONA DIVIDEND ADVANTAGE 2 (NKR)
<b>ASSETS</b>			
Investments, at value (cost \$89,045,724, \$31,620,171, \$52,113,142, \$64,070,644 and \$200,103,411, respectively)	\$92,101,248	\$32,451,200	\$54,203,030
Cash	354,358	631,591	--
Receivables:			
Interest	634,943	251,451	438,380
Investments sold	--	1,545,829	422,854
Unrealized appreciation on forward swaps	--	--	--
Other assets	9,961	5,870	97
<b>Total assets</b>	<b>93,100,510</b>	<b>34,885,941</b>	<b>55,064,361</b>
<b>LIABILITIES</b>			
Cash overdraft	--	--	62,662
Payable for investments purchased	--	--	--
Accrued expenses:			
Management fees	50,155	11,438	15,699
Other	17,622	6,193	12,319
Preferred share dividends payable	9,038	6,805	8,616
<b>Total liabilities</b>	<b>76,815</b>	<b>24,436</b>	<b>99,296</b>
Preferred shares, at liquidation value	30,000,000	12,000,000	18,500,000
Net assets applicable to Common shares	\$63,023,695	\$22,861,505	\$36,465,065
Common shares outstanding	4,468,210	1,547,644	2,430,496
Net asset value per Common share outstanding (net assets applicable to Common shares, divided by Common shares outstanding)	\$ 14.10	\$ 14.77	\$ 15.00
<b>NET ASSETS APPLICABLE TO COMMON SHARES CONSIST OF:</b>			
Common shares, \$.01 par value per share	\$ 44,682	\$ 15,476	\$ 24,305
Paid-in surplus	62,143,653	21,891,330	34,438,571
Undistributed (Over-distribution of) net investment income	(115,641)	4,540	(45,252)
Accumulated net realized gain (loss) from investments and derivative transactions	(2,104,523)	119,130	(42,447)
Net unrealized appreciation (depreciation) of investments and derivative transactions	3,055,524	831,029	2,089,888
Net assets applicable to Common shares	\$63,023,695	\$22,861,505	\$36,465,065
Authorized shares:			
Common	200,000,000	Unlimited	Unlimited
Preferred	1,000,000	Unlimited	Unlimited

See accompanying notes to financial statements.

Statement of  
OPERATIONS Year Ended July 31, 2006

	ARIZONA PREMIUM INCOME (NAZ)	ARIZONA DIVIDEND ADVANTAGE (NFZ)	ARIZONA DIVIDEND ADVANTAGE 2 (NKR)
INVESTMENT INCOME	\$ 4,478,362	\$1,656,401	\$ 2,642,814
EXPENSES			
Management fees	598,886	224,921	354,100
Preferred shares - auction fees	74,424	29,769	45,894
Preferred shares - dividend disbursing agent fees	10,000	10,000	10,000
Shareholders' servicing agent fees and expenses	5,574	458	330
Custodian's fees and expenses	26,979	13,542	20,436
Directors'/Trustees' fees and expenses	2,028	944	1,215
Professional fees	12,887	10,666	11,252
Shareholders' reports - printing and mailing expenses	6,590	7,746	10,570
Stock exchange listing fees	10,106	132	206
Investor relations expense	10,540	6,165	8,303
Other expenses	10,356	10,128	11,142
Total expenses before custodian fee credit and expense reimbursement	768,370	314,471	473,448
Custodian fee credit	(11,833)	(5,003)	(4,028)
Expense reimbursement	--	(96,891)	(166,172)
Net expenses	756,537	212,577	303,248
Net investment income	3,721,825	1,443,824	2,339,566
REALIZED AND UNREALIZED GAIN (LOSS)			
Net realized gain (loss) from investments	118,668	129,877	124,725
Net realized gain (loss) from forward swaps	--	45,960	89,291
Change in net unrealized appreciation (depreciation) of investments	(1,870,680)	(781,653)	(1,063,447)
Change in net unrealized appreciation (depreciation) of forward swaps	--	(25,345)	(50,556)
Net realized and unrealized gain (loss)	(1,752,012)	(631,161)	(899,987)
DISTRIBUTIONS TO PREFERRED SHAREHOLDERS			
From net investment income	(787,320)	(305,984)	(485,176)
From accumulated net realized gains	--	(14,818)	(34,003)
Decrease in net assets applicable to Common shares from distributions to Preferred shareholders	(787,320)	(320,802)	(519,179)
Net increase (decrease) in net assets applicable to Common shares from operations	\$ 1,182,493	\$ 491,861	\$ 920,400

See accompanying notes to financial statements.

Statement of  
CHANGES IN NET ASSETS

	ARIZONA PREMIUM INCOME (NAZ)		ARIZONA DIVIDEND ADVANTAGE (NFZ)	
	YEAR ENDED 7/31/06	YEAR ENDED 7/31/05	YEAR ENDED 7/31/06	YEAR ENDED 7/31/05
<hr/>				
OPERATIONS				
Net investment income	\$ 3,721,825	\$ 3,821,484	\$ 1,443,824	\$ 1,497,111
Net realized gain (loss)				
from investments	118,668	769,058	129,877	205,411
Net realized gain (loss) from forward swaps	--	--	45,960	(129,000)
Change in net unrealized appreciation (depreciation) of investments	(1,870,680)	1,754,362	(781,653)	620,211
Change in net unrealized appreciation (depreciation) of forward swaps	--	--	(25,345)	25,345
Distributions to Preferred shareholders:				
From net investment income	(787,320)	(405,070)	(305,984)	(157,500)
From accumulated net realized gains	--	--	(14,818)	(4,000)
<hr/>				
Net increase (decrease) in net assets applicable to Common shares from operations	1,182,493	5,939,834	491,861	2,057,511
<hr/>				
DISTRIBUTIONS TO COMMON SHAREHOLDERS				
From net investment income	(3,081,682)	(3,762,499)	(1,299,911)	(1,418,111)
From accumulated net realized gains	--	--	(118,137)	(67,300)
<hr/>				
Decrease in net assets applicable to Common shares from distributions to Common shareholders	(3,081,682)	(3,762,499)	(1,418,048)	(1,485,511)
<hr/>				
CAPITAL SHARE TRANSACTIONS				
Net proceeds from Common shares issued to shareholders due to reinvestment of distributions	100,418	213,665	35,014	27,800
<hr/>				
Net increase (decrease) in net assets applicable to Common shares from capital share transactions	100,418	213,665	35,014	27,800
<hr/>				
Net increase (decrease) in net assets applicable to Common shares	(1,798,771)	2,391,000	(891,173)	599,900
Net assets applicable to Common shares at the beginning of year	64,822,466	62,431,466	23,752,678	23,152,778
<hr/>				
Net assets applicable to Common shares at the end of year	\$63,023,695	\$64,822,466	\$22,861,505	\$23,752,678
<hr/>				

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Undistributed (Over-distribution of) net investment income at the end of year	\$ (115,641)	\$ 31,548	\$ 4,540	\$ 166,6
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See accompanying notes to financial statements.

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Statement of  
CHANGES IN NET ASSETS (continued)

	ARIZONA DIVIDEND ADVANTAGE 3 (NXE)	
	YEAR ENDED 7/31/06	YEAR ENDED 7/31/05
-----		
OPERATIONS		
Net investment income	\$ 2,706,006	\$ 2,735,16
Net realized gain (loss) from investments	111,246	(44,80
Net realized gain (loss) from forward swaps	143,857	(530,16
Change in net unrealized appreciation (depreciation) of investments	(1,013,672)	2,365,82
Change in net unrealized appreciation (depreciation) of forward swaps	(30,567)	78,66
Distributions to Preferred shareholders:		
From net investment income	(597,775)	(313,29
From accumulated net realized gains	--	-
-----		
Net increase (decrease) in net assets applicable to Common shares from operations	1,319,095	4,291,38
-----		
DISTRIBUTIONS TO COMMON SHAREHOLDERS		
From net investment income	(2,239,245)	(2,444,59
From accumulated net realized gains	--	-
-----		
Decrease in net assets applicable to Common shares from distributions to Common shareholders	(2,239,245)	(2,444,59
-----		
CAPITAL SHARE TRANSACTIONS		
Net proceeds from Common shares issued to shareholders due to reinvestment of distributions	4,304	-
-----		
Net increase (decrease) in net assets applicable to Common shares from capital share transactions	4,304	-
-----		
Net increase (decrease) in net assets applicable to Common shares	(915,846)	1,846,79
Net assets applicable to Common shares at the beginning of year	44,829,316	42,982,52
-----		
Net assets applicable to Common		

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shares at the end of year	\$43,913,470	\$44,829,31
=====		
Undistributed (Over-distribution of)		
net investment income		
at the end of year	\$ (93,467)	\$ 37,54
=====		

See accompanying notes to financial statements.

Notes to  
FINANCIAL STATEMENTS

1. GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES

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

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

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

Investment Valuation

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

#### Investment Transactions

Investment transactions are recorded on a trade date basis. Realized gains and losses from transactions are determined on the specific identification method. Investments purchased on a when-issued or 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, 2006, Texas Quality Income (NTX) had an outstanding when-issued/delayed delivery purchase commitment of \$3,759,046. There were no such outstanding purchase commitments in any of the other 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.

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#### Notes to FINANCIAL STATEMENTS (continued)

#### Income Taxes

Each Fund is a separate taxpayer for federal income tax purposes. Each Fund intends to distribute substantially all net investment income and net capital gains to shareholders and to otherwise comply with the requirements of Subchapter M of the Internal Revenue Code applicable to regulated investment companies. Therefore, no federal income tax provision is required. Furthermore, each Fund intends to satisfy conditions which will enable interest from municipal securities, which is exempt from regular federal and designated state income taxes, if any, to retain such tax-exempt status when distributed to shareholders of the Funds. All monthly tax-exempt income dividends paid during the fiscal year ended July 31, 2006, have been designated Exempt Interest Dividends. Net realized capital gains and ordinary income distributions paid by the Funds are subject to federal taxation.

#### Dividends and Distributions to Common Shareholders

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

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

#### Preferred Shares

The Funds have issued and outstanding Preferred shares, \$25,000 stated value per

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

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

### Forward Swap Transactions

The Funds are authorized to invest in certain derivative financial instruments. The Funds' use of forward interest rate swap transactions is intended to mitigate the negative impact that an increase in long-term interest rates could have on Common share net asset value. Forward interest rate swap transactions involve each Fund's agreement with the counterparty to pay, in the future, a fixed rate payment in exchange for the counterparty paying the Fund a variable rate payment, the accruals for which would begin at a specified date in the future (the "effective date"). The amount of the payment obligation is based on the notional amount of the forward swap contract, and would increase or decrease in value based primarily on the extent to which long-term interest rates for bonds having a maturity of the swaps' termination date were to increase or decrease. The Funds may close out a contract prior to the effective date, at which point a realized gain or loss would be recognized. When a forward swap is terminated, it ordinarily does not involve the delivery of securities or other underlying assets or principal, but rather is settled in cash on a net basis. Each Fund intends, but is not obligated to, terminate its forward swaps before the effective date. Accordingly, the risk of loss with respect to the swap counterparty on such transactions is limited to the credit risk associated with a counterparty failing to honor its commitment to pay any realized gain to the Fund upon termination. To minimize such credit risk, all counterparties are required to pledge collateral daily (based on the daily valuation of each swap) on behalf of each Fund with a value approximately equal to the amount of any unrealized gain above a pre-determined threshold. Reciprocally, when any of the Funds have an unrealized loss on a swap contract, the Funds have instructed the custodian to pledge assets of the Funds as collateral with a value approximately equal to the amount of the unrealized loss above a pre-determined threshold. Collateral pledges are monitored and subsequently adjusted if and when the swap valuations fluctuate, either up or down, by at least the predetermined threshold amount.

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

## Indemnifications

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

## Use of Estimates

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

## 2. FUND SHARES

Transactions in Common shares were as follows:

	ARIZONA PREMIUM INCOME (NAZ)		ARIZONA DIVIDEND ADVANTAGE (NFZ)		ARIZON ADVANT
	YEAR ENDED 7/31/06	YEAR ENDED 7/31/05	YEAR ENDED 7/31/06	YEAR ENDED 7/31/05	YEAR ENDED 7/31/06
Common shares issued to shareholders due to reinvestment of distributions	6,761	13,619	2,135	1,750	6,848

	ARIZONA DIVIDEND ADVANTAGE 3 (NXE)		TEX INC
	YEAR ENDED 7/31/06	YEAR ENDED 7/31/05	YEAR ENDED 7/31/06
Common shares issued to shareholders due to reinvestment of distributions	288	--	5,523

## 3. INVESTMENT TRANSACTIONS

Purchases and sales (including maturities but excluding short-term investments and derivative transactions) during the fiscal year ended July 31, 2006, were as follows:



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	ARIZONA PREMIUM INCOME (NAZ)	ARIZONA DIVIDEND ADVANTAGE (NFZ)	ARIZONA DIVIDEND ADVANTAGE 2 (NKR)	ARIZONA DIVIDEND ADVANTAGE 3 (NXE)	
Purchases	\$20,788,098	\$ 8,420,390	\$6,052,030	\$7,842,804	\$27
Sales and maturities	20,953,737	10,197,260	6,292,636	8,576,880	28

4. INCOME TAX INFORMATION

The following information is presented on an income tax basis. Differences between amounts for financial statement and federal income tax purposes are primarily due to the treatment of paydown gains and losses, timing differences in recognizing taxable market discount 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, based on their Federal tax basis treatment and have no impact on the net asset value of the Funds. Temporary differences do not require reclassification.

At July 31, 2006, the cost of investments was as follows:

	ARIZONA PREMIUM INCOME (NAZ)	ARIZONA DIVIDEND ADVANTAGE (NFZ)	ARIZONA DIVIDEND ADVANTAGE 2 (NKR)	ARIZONA DIVIDEND ADVANTAGE 3 (NXE)	
Cost of investments	\$89,022,714	\$31,616,846	\$52,223,986	\$64,128,048	\$200

Notes to  
FINANCIAL STATEMENTS (continued)

Gross unrealized appreciation and gross unrealized depreciation of investments at July 31, 2006, were as follows:

ARIZONA PREMIUM INCOME	ARIZONA DIVIDEND ADVANTAGE	ARIZONA DIVIDEND ADVANTAGE 2	ARIZONA DIVIDEND ADVANTAGE 3
------------------------------	----------------------------------	------------------------------------	------------------------------------

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	(NAZ)	(NFZ)	(NKR)	(NXE)	
-----					
Gross unrealized:					
Appreciation	\$3,170,003	\$856,249	\$2,132,813	\$1,382,551	\$8
Depreciation	(91,469)	(21,895)	(153,769)	(91,329)	
-----					
Net unrealized appreciation (depreciation) of investments	\$3,078,534	\$834,354	\$1,979,044	\$1,291,222	\$7
=====					

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

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

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

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

The tax character of distributions paid during the tax years ended July 31, 2006 and July 31, 2005, was designated for purposes of the dividends paid deduction as follows:

2006	ARIZONA PREMIUM INCOME (NAZ)	ARIZONA DIVIDEND ADVANTAGE (NFZ)	ARIZONA DIVIDEND ADVANTAGE 2 (NKR)	ARIZONA DIVIDEND ADVANTAGE 3 (NXE)
-----				
Distributions from net tax-exempt income	\$3,923,547	\$1,618,663	\$2,507,532	\$2,850,
Distributions from net ordinary income **	--	--	--	--
Distributions from net long-term capital gains ***	--	132,955	290,789	
=====				

2005	ARIZONA PREMIUM INCOME (NAZ)	ARIZONA DIVIDEND ADVANTAGE (NFZ)	ARIZONA DIVIDEND ADVANTAGE 2 (NKR)	ARIZONA DIVIDEND ADVANTAGE 3 (NXE)
-----				
Distributions from net tax-exempt income	\$4,217,354	\$1,573,643	\$2,351,896	\$2,764,
Distributions from net ordinary income **	--	--	--	--
Distributions from net long-term capital gains	--	71,358	307,825	
=====				

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

\*\*\* 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 the earnings and profits of the Funds related to net capital gain to zero for the tax year ended July 31, 2006.

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

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

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

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

5. MANAGEMENT FEE AND OTHER TRANSACTIONS WITH AFFILIATES

Each Fund's management fee is separated into two components - a complex-level component, based on the aggregate amount of all fund assets managed by Nuveen Asset Management (the "Adviser"), a wholly owned subsidiary of Nuveen Investments, Inc., ("Nuveen"), and a specific fund-level component, based only on the amount of assets within each individual fund. This pricing structure enables Nuveen fund shareholders to benefit from growth in the assets within each individual fund as well as from growth in the amount of complex-wide assets managed by the Adviser.

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

AVERAGE DAILY NET ASSETS	ARIZONA PREMIUM INCOME (NAZ)
--------------------------	------------------------------

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(INCLUDING NET ASSETS ATTRIBUTABLE TOPREFERRED SHARES)	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

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

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Notes to  
FINANCIAL STATEMENTS (continued)

The annual complex-level fee, payable monthly, which is additive to the fund-level fee, for all Nuveen sponsored funds in the U.S., is based on the aggregate amount of total fund assets managed as stated in the table below. As of July 31, 2006, the complex-level fee rate was .1875%.

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

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

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

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

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

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

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

\* From the commencement of operations.

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

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

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

\* From the commencement of operations.

The Adviser has not agreed to reimburse Arizona Dividend Advantage 2 (NKR) for

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any portion of its fees and expenses beyond March 31, 2012.

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

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

\* From the commencement of operations.

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

Notes to  
FINANCIAL STATEMENTS (continued)

6. NEW ACCOUNTING PRONOUNCEMENT

Financial Accounting Standards Board Interpretation No. 48

On July 13, 2006, the Financial Accounting Standards Board (FASB) released FASB Interpretation No. 48 Accounting for Uncertainty in Income Taxes (FIN 48). FIN 48 provides guidance for how uncertain tax positions should be recognized, measured, presented and disclosed in the financial statements. FIN 48 requires the evaluation of tax positions taken or expected to be taken in the course of preparing the Fund's tax returns to determine whether the tax positions are "more-likely-than-not" of being sustained by the applicable tax authority. Tax positions not deemed to meet the more-likely-than-not threshold would be recorded as a tax benefit or expense in the current year. Adoption of FIN 48 is required for fiscal years beginning after December 15, 2006 and is to be applied to all open tax years as of the effective date. At this time, management is evaluating the implications of FIN 48 and does not expect the adoption of FIN 48 will have a significant impact on the net assets or results of operations of the Funds.

7. SUBSEQUENT EVENTS

Distributions to Common Shareholders

The Funds declared Common share dividend distributions from their tax-exempt net investment income which were paid on September 1, 2006, to shareholders of record on August 15, 2006, as follows:

ARIZONA PREMIUM	ARIZONA DIVIDEND	ARIZONA DIVIDEND	ARIZONA DIVIDEND
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	INCOME (NAZ)	ADVANTAGE (NFZ)	ADVANTAGE 2 (NKR)	ADVANTAGE 3 (NXE)
Dividend per share	\$ .0510	\$ .0655	\$ .0645	\$ .0565

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Financial  
HIGHLIGHTS

51

Financial  
HIGHLIGHTS

Selected data for a Common share outstanding throughout each period:

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

ARIZONA PREMIUM  
INCOME (NAZ)

Year Ended 7/31:	Beginning Common Share Net Asset Value	Net Investment Income	Net Realized/ Unrealized Gain (Loss)	Distributions from Net Investment Income to Preferred Share- holders+	Distributions from Capital Gains to Preferred Share- holders+	Tot
2006	\$14.53	\$ .83	\$ (.39)	\$ (.18)	\$ --	\$ .
2005	14.04	.86	.56	(.09)	--	1.
2004	13.66	.92	.43	(.05)	--	1.
2003	14.25	.97	(.57)	(.07)	--	.
2002	14.77	1.07	(.57)	(.09)	(.01)	.

ARIZONA DIVIDEND  
ADVANTAGE (NFZ)

Year Ended 7/31:	Beginning Common Share Net Asset Value	Net Investment Income	Net Realized/ Unrealized Gain (Loss)	Distributions from Net Investment Income to Preferred Share- holders+	Distributions from Capital Gains to Preferred Share- holders+	Tot
2006	15.37	.93	(.40)	(.20)	(.01)	.
2005	15.00	.97	.46	(.10)	--	1.
2004	14.45	.99	.57	(.06)	--	1.
2003	14.81	1.00	(.38)	(.07)	(.01)	.
2002	14.37	1.04	.36	(.11)	--	1.

ARIZONA DIVIDEND  
ADVANTAGE 2 (NKR)

Year Ended 7/31:

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2006	15.56	.96	(.37)	(.20)	(.01)	.
2005	15.10	.97	.59	(.11)	(.01)	1.
2004	14.57	.96	.53	(.06)	--	1.
2003	14.88	.96	(.31)	(.08)	--	.
2002 (a)	14.33	.24	.71	(.02)	--	.

ARIZONA DIVIDEND  
ADVANTAGE 3 (NXE)

Year Ended 7/31:

2006	14.62	.88	(.26)	(.19)	--	.
2005	14.01	.89	.62	(.10)	--	1.
2004	13.45	.89	.54	(.06)	--	1.
2003 (b)	14.33	.66	(.67)	(.05)	--	(.

TEXAS QUALITY  
INCOME (NTX)

Year Ended 7/31:

2006	15.46	.96	(.32)	(.22)	--	.
2005	15.12	1.00	.41	(.13)	--	1.
2004	14.57	1.03	.55	(.07)	--	1.
2003	15.14	1.05	(.58)	(.08)	--	.
2002	15.16	1.11	(.02)	(.10)	(.02)	.

Total Returns

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

ARIZONA PREMIUM  
INCOME (NAZ)

Year Ended 7/31:

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

ARIZONA DIVIDEND  
ADVANTAGE (NFZ)

Year Ended 7/31:

2006	--	14.77	15.90	4.54	2.14
2005	--	15.37	16.08	10.88	9.04
2004	--	15.00	15.40	7.05	10.56
2003	.02	14.45	15.30	3.06	3.67
2002	--	14.81	15.75	6.38	9.32

ARIZONA DIVIDEND  
ADVANTAGE 2 (NKR)

Year Ended 7/31:

2006	--	15.00	15.37	.82	2.49
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2005	--	15.56	16.19	16.30	9.74
2004	--	15.10	14.82	9.46	9.98
2003	(.01)	14.57	14.40	(3.53)	3.67
2002 (a)	(.16)	14.88	15.80	6.81	5.38

ARIZONA DIVIDEND  
ADVANTAGE 3 (NXE)

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

TEXAS QUALITY  
INCOME (NTX)

Year Ended 7/31:					
2006	--	15.06	14.71	(4.03)	2.77
2005	--	15.46	16.19	17.83	8.61
2004	--	15.12	14.59	5.87	10.51
2003	--	14.57	14.71	4.14	2.54
2002	--	15.14	15.07	9.29	6.61

Ratios/Supplemental Data

	Before Credit/Reimbursement		After Credit/Reimbursement	
	Ending Net Assets Applicable to Common Shares (000)	Ratio of Expenses to Average Net Assets Applicable to Common Shares <sup>++</sup>	Ratio of Net Investment Income to Average Net Assets Applicable to Common Shares <sup>++</sup>	Ratio of Expenses to Average Net Assets Applicable to Common Shares <sup>++</sup>

ARIZONA PREMIUM  
INCOME (NAZ)

Year Ended 7/31:				
2006	\$63,024	1.21%	5.83%	1.19%
2005	64,822	1.20	5.91	1.19
2004	62,431	1.22	6.49	1.21
2003	60,547	1.25	6.81	1.24
2002	62,876	1.28	7.45	1.26

ARIZONA DIVIDEND  
ADVANTAGE (NFZ)

Year Ended 7/31:				
2006	22,862	1.36	5.79	.92
2005	23,753	1.34	5.82	.87
2004	23,153	1.30	6.10	.83
2003	22,290	1.35	6.11	.91
2002	22,791	1.41	6.72	.93

ARIZONA DIVIDEND  
ADVANTAGE 2 (NKR)

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Year Ended 7/31:				
2006	36,465	1.28	5.88	.82
2005	37,704	1.27	5.76	.82
2004	36,543	1.27	5.83	.80
2003	35,237	1.27	5.78	.82
2002 (a)	35,913	1.19*	4.43*	.77*

ARIZONA DIVIDEND  
ADVANTAGE 3 (NXE)

Year Ended 7/31:				
2006	43,913	1.26	5.63	.78
2005	44,829	1.25	5.63	.76
2004	42,983	1.25	5.80	.76
2003 (b)	41,247	1.19*	5.05*	.73*

TEXAS QUALITY  
INCOME (NTX)

Year Ended 7/31:				
2006	143,009	1.19	6.31	1.18
2005	146,718	1.18	6.42	1.16
2004	143,233	1.18	6.77	1.18
2003	137,975	1.20	6.93	1.19
2002	143,305	1.23	7.40	1.22

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:			
2006	\$30,000	\$25,000	\$77,520
2005	30,000	25,000	79,019
2004	30,000	25,000	77,026
2003	30,000	25,000	75,456
2002	30,000	25,000	77,397

ARIZONA DIVIDEND  
ADVANTAGE (NFZ)

Year Ended 7/31:			
2006	12,000	25,000	72,628
2005	12,000	25,000	74,485
2004	12,000	25,000	73,235
2003	12,000	25,000	71,438
2002	12,000	25,000	72,480

ARIZONA DIVIDEND  
ADVANTAGE 2 (NKR)

Year Ended 7/31:			
2006	18,500	25,000	74,277
2005	18,500	25,000	75,952
2004	18,500	25,000	74,382

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2003	18,500	25,000	72,618
2002 (a)	18,500	25,000	73,531

ARIZONA DIVIDEND  
ADVANTAGE 3 (NXE)

-----  
Year Ended 7/31:

2006	22,000	25,000	74,902
2005	22,000	25,000	75,942
2004	22,000	25,000	73,844
2003 (b)	22,000	25,000	71,872

TEXAS QUALITY  
INCOME (NTX)

-----  
Year Ended 7/31:

2006	69,000	25,000	76,815
2005	69,000	25,000	78,159
2004	69,000	25,000	76,896
2003	69,000	25,000	74,991
2002	69,000	25,000	76,922

=====

\* Annualized.

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

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

+ The amounts shown are based on Common share equivalents.

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

(a) For the period March 25, 2002 (commencement of operations) through July 31, 2002.

(b) For the period September 25, 2002 (commencement of operations) through July 31, 2003.

See accompanying notes to financial statements.

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Board Members  
AND 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 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.

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NAME, BIRTHDATE AND ADDRESS	POSITION(S) HELD WITH THE FUNDS	YEAR FIRST ELECTED OR APPOINTED (2)	PRINCIPAL OCCUPATION(S) INCLUDING OTHER DIRECTORSHIPS DURING PAST 5 YEARS
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BOARD MEMBER WHO IS AN INTERESTED PERSON OF THE FUNDS:

Timothy R. Schwertfeger(1) 3/28/49 333 W. Wacker Drive Chicago, IL 60606	Chairman of the Board and Board Member	1994	Chairman (since 1996) and Director of N Inc., Nuveen Investments, LLC, Nuveen A Nuveen Institutional Advisory Corp.(3); (1996-2006) of Institutional Capital Co and Director (since 1997) of Nuveen Ass Chairman and Director of Rittenhouse AS Inc. (since 1999); Chairman of Nuveen I Advisers Inc. (since 2002).
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BOARD MEMBERS WHO ARE NOT INTERESTED PERSONS OF THE FUNDS:

Robert P. Bremner 8/22/40 333 W. Wacker Drive Chicago, IL 60606	Lead Independent Board member	1997	Private Investor and Management Consult
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Lawrence H. Brown 7/29/34 333 W. Wacker Drive Chicago, IL 60606	Board member	1993	Retired (since 1989) as Senior Vice Pre Northern Trust Company; Director (since Advisory Board for Highland Park and Hi Way of the North Shore.
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Jack B. Evans 10/22/48 333 W. Wacker Drive Chicago, IL 60606	Board member	1999	President, The Hall-Perrine Foundation, corporation (since 1996); Director and Fire Group, a publicly held company; Ad University of Iowa; Director, Gazette C of Coe College and Iowa College Foundat Director, Alliant Energy; formerly, Dir Bank of Chicago; formerly, President an SCI Financial Group, Inc., a regional f
---	--------------	------	---

William C. Hunter 3/6/48 333 W. Wacker Drive Chicago, IL 60606	Board member	2004	Dean, Tippie College of Business, Unive June 2006); formerly, Dean and Distingu School of Business at the University of previously, Senior Vice President and D at the Federal Reserve Bank of Chicago Director (since 1997), Credit Research University; Director (since 2004) of Xe Director, SS&C Technologies, Inc. (May
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David J. Kundert 10/28/42 333 W. Wacker Drive Chicago, IL 60606	Board member	2005	Retired (since 2004) as Chairman, JPMor Management, President and CEO, Banc One Advisors Corporation, and President, On Funds; prior thereto, Executive Vice Pr Corporation and Chairman and CEO, Banc Management Group; Board of Regents, Lut member of the Wisconsin Bar Association of Directors, Friends of Boerner Botani
--	--------------	------	---

NAME, BIRTHDATE AND ADDRESS	POSITION(S) HELD WITH THE FUNDS	YEAR FIRST ELECTED OR APPOINTED (2)	PRINCIPAL OCCUPATION(S) INCLUDING OTHER DIRECTORSHIPS DURING PAST 5 YEARS
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BOARD MEMBERS WHO ARE NOT INTERESTED PERSONS OF THE FUNDS (CONTINUED):  
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William J. Schneider 9/24/44 333 W. Wacker Drive Chicago, IL 60606	Board member	1997	Chairman of Miller-Valentine Partners L investment company; formerly, Senior Pa Operating Officer (retired, 2004) of Mi Group; formerly, Vice President, Miller Board Member, Chair of the Finance Comm member of the Audit Committee of Premie the not-for-profit company of Miami Val President, Dayton Philharmonic Orchestr Member, Regional Leaders Forum, which p on economic development issues; Directo Coalition; formerly, Member, Community National City Bank, Dayton, Ohio and Bu Council, Cleveland Federal Reserve Bank
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Judith M. Stockdale 12/29/47 333 W. Wacker Drive Chicago, IL 60606	Board member	1997	Executive Director, Gaylord and Dorothy Foundation (since 1994); prior thereto, Great Lakes Protection Fund (from 1990
---	--------------	------	--

Eugene S. Sunshine 1/22/50 333 W. Wacker Drive Chicago, IL 60606	Board member	2005	Senior Vice President for Business and Northwestern University (since 1997); D Chicago Board Options Exchange; formerl National Mentor Holdings, a privately-h of home and community-based services; C (since 1997), Board of Directors, Rubic captive insurance company owned by Nort University; Director (since 1997), Evan Chamber of Commerce and Evanston Invent business development organization.
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NAME, BIRTHDATE AND ADDRESS	POSITION(S) HELD WITH THE FUNDS	YEAR FIRST ELECTED OR APPOINTED (4)	PRINCIPAL OCCUPATION(S) DURING PAST 5 YEARS
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OFFICERS OF THE FUND:  
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Gifford R. Zimmerman 9/9/56 333 W. Wacker Drive Chicago, IL 60606	Chief Administrative Officer	1988	Managing Director (since 2002), Assista Associate General Counsel, formerly, Vi Assistant General Counsel, of Nuveen In Managing Director (2002-2004), General and Assistant Secretary, formerly, Vice Advisory Corp. and Nuveen Institutional Managing Director (since 2002) and Assi
--	------------------------------------	------	--

Associate General Counsel, formerly, Vice President (since 1997), of Nuveen Asset Management; Managing Director (since 2004) and Assistant Secretary (since 1997) of Nuveen Investments, Inc.; Assistant Secretary of Nuveen Investment Management Company, LLC. (since 2002); Assistant Secretary of Nuveen Investments (since 2002); Managing Director, Associate and Assistant Secretary of Rittenhouse Inc. and Symphony Asset Management LLC (since 2002); Assistant Secretary of Tradewinds NWQ Group (since 2006); Chartered Financial Analyst

Board Members  
AND OFFICERS (CONTINUED)

NAME, BIRTHDATE AND ADDRESS	POSITION(S) HELD WITH THE FUNDS	YEAR FIRST ELECTED OR APPOINTED (4)	PRINCIPAL OCCUPATION(S) DURING PAST 5 YEARS
----- OFFICERS OF THE FUNDS (CONTINUED): -----			
Julia L. Antonatos 9/22/63 333 W. Wacker Drive Chicago, IL 60606	Vice President	2004	Managing Director (since 2005), formerly, Assistant Vice President (since 2002); formerly, Assistant Vice President of Nuveen Investments, LLC; Chartered Financial Analyst
Michael T. Atkinson 2/3/66 333 W. Wacker Drive Chicago, IL 60606	Vice President and Assistant Secretary	2000	Vice President (since 2002), formerly, President (since 2000) of Nuveen Investments
Peter H. D'Arrigo 11/28/67 333 W. Wacker Drive Chicago, IL 60606	Vice President	1999	Vice President and Treasurer of Nuveen Investments and of Nuveen Investments, Inc. (since 2002); Treasurer of Nuveen Asset Management and of Nuveen Investments Advisers Inc. (since 2002); Treasurer of NWQ Investment Management (since 2002); Vice President and Treasurer of Rittenhouse Asset Management, Inc. and Rittenhouse Asset Management LLC (since 2003); Treasurer, Global Investors, LLC (since 2006); formerly, Treasurer (1999-2004) of Nuveen Advisors Institutional Advisory Corp. (3); Chartered Financial Analyst
John N. Desmond 8/24/61 333 W. Wacker Drive Chicago, IL 60606	Vice President	2005	Vice President, Director of Investment Management of Nuveen Investments, LLC (since January 2005); Business Manager, Deutsche Asset Management (since 2002); Director, Business Development and Transaction Management, Trust Bank Japan (2002-2003); previously, President, Head of Investment Operations of Nuveen Investments Japan, (2000-2002), Senior Vice President, Plan Administration and Participant Services (1995-2002).

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Jessica R. Droeger 9/24/64 333 W. Wacker Drive Chicago, IL 60606	Vice President and Secretary	1998	Vice President (since 2002), Assistant Assistant General Counsel (since 1998) Vice President (since 1998) of Nuveen I Vice President (2002-2004) and Assistan formerly, Assistant Vice President of N and Nuveen Institutional Advisory Corp. and Assistant Secretary (since 2005) of Management.
Lorna C. Ferguson 10/24/45 333 W. Wacker Drive Chicago, IL 60606	Vice President	1998	Managing Director (since 2004), formerl Nuveen Investments, LLC, Managing Direc Vice President (1998-2004) of Nuveen Ad Nuveen Institutional Advisory Corp.(3); (since 2005) of Nuveen Asset Management
William M. Fitzgerald 3/2/64 333 W. Wacker Drive Chicago, IL 60606	Vice President	1995	Managing Director (since 2002), formerl Nuveen Investments; Managing Director (N Nuveen Advisory Corp. and Nuveen Instit Corp.(3); Managing Director (since 2001 Management; Vice President (since 2002) Investments Advisers Inc.; Chartered Fi

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NAME, BIRTHDATE AND ADDRESS	POSITION(S) HELD WITH THE FUNDS	YEAR FIRST ELECTED OR APPOINTED (4)	PRINCIPAL OCCUPATION(S) DURING PAST 5 YEARS
OFFICERS OF THE FUNDS (CONTINUED):			
Stephen D. Foy 5/31/54 333 W. Wacker Drive Chicago, IL 60606	Vice President and Controller	1998	Vice President (since 1993) and Funds C of Nuveen Investments, LLC; formerly, V Funds Controller (1998-2004) of Nuveen Certified Public Accountant.
David J. Lamb 3/22/63 333 W. Wacker Drive Chicago, IL 60606	Vice President	2000	Vice President (since 2000) of Nuveen I LLC; Certified Public Accountant.
Tina M. Lazar 8/27/61 333 W. Wacker Drive Chicago, IL 60606	Vice President	2002	Vice President of Nuveen Investments, L
Larry W. Martin 7/27/51 333 W. Wacker Drive Chicago, IL 60606	Vice President and Assistant Secretary	1988	Vice President, Assistant Secretary and Counsel of Nuveen Investments, LLC; for and Assistant Secretary of Nuveen Advis Institutional Advisory Corp.(3); Vice P

and Assistant Secretary of Nuveen Inves  
President (since 2005) and Assistant Se  
of Nuveen Asset Management; Vice Presid  
Assistant Secretary and Assistant Gener  
1998) of Rittenhouse Asset Management,  
and Assistant Secretary of Nuveen Inves  
(since 2002); Assistant Secretary of NW  
Management Company, LLC (since 2002), S  
Management LLC (since 2003) and Tradewi  
Investors, LLC (since 2006).

- (1) Mr. Schwertfeger is an "interested person" of the Funds, as defined in the Investment Company Act of 1940, because he is an officer and board member of the Adviser.
- (2) Board members serve an indefinite term until his/her successor is elected. The year first elected or appointed represents the year in which the board member was first elected or appointed to any fund in the Nuveen Complex.
- (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.

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ANNUAL INVESTMENT  
MANAGEMENT AGREEMENT  
APPROVAL PROCESS

The Board of Trustees is responsible for overseeing the performance of the investment adviser to the Funds and determining whether to continue the advisory arrangements. At a meeting held on May 23-25, 2006 (the "May Meeting"), the Board of Trustees of the Funds, including the independent Trustees, unanimously approved the continuance of the Investment Management Agreement between each Fund and NAM (the "Fund Adviser").

THE APPROVAL PROCESS

During the course of the year, the Board received a wide variety of materials relating to the services provided by the Fund Adviser and the performance of each Fund. To assist the Board in its evaluation of the advisory contract with the Fund Adviser at the May Meeting, the independent Trustees received extensive materials in advance of their meeting which outlined, among other things:

- o the nature, extent and quality of services provided by the Fund Adviser;
- o the organization and business operations of the Fund Adviser, including the responsibilities of various departments and key personnel;
- o the Fund's past performance, the Fund's performance compared to funds of similar investment objectives compiled by an independent third party and to customized benchmarks;
- o the profitability of the Fund Adviser and certain industry profitability analyses for unaffiliated advisers;



- o the expenses of the Fund Adviser in providing the various services;
- o the advisory fees (gross and net management fees) and total expense ratios of the Fund, including comparisons of such fees and expenses with those of comparable, unaffiliated funds based on information and data provided by Lipper (the "Peer Universe") as well as compared to a subset of funds within the Peer Universe (the "Peer Group") to the respective Fund (as applicable);
- o the advisory fees the Fund Adviser assesses to other types of investment products or clients;
- o the soft dollar practices of the Fund Adviser, if any; and
- o from independent legal counsel, a legal memorandum describing, among other things, the duties of the Trustees under the Investment Company Act of 1940 (the "1940 Act") as well as the general principles of relevant state law in reviewing and approving advisory contracts; the requirements of the 1940 Act in such matters; an adviser's fiduciary duty with respect to advisory agreements and compensation; the standards used by courts in determining whether investment company boards of directors have fulfilled their duties; and factors to be considered by the Board in voting on advisory agreements.

At the May Meeting, the Fund Adviser made a presentation to and responded to questions from the Board. After the presentations and after reviewing the written materials, the independent Trustees met privately with their legal counsel to review the Board's duties in reviewing advisory contracts and consider the renewal of the advisory contracts. It is with this background that the Trustees considered the advisory contract with the Fund Adviser. The independent Trustees, in consultation with independent counsel, reviewed the factors set out in judicial decisions and SEC directives relating to the renewal of advisory contracts. As outlined in more detail below, the Trustees considered all factors they believed relevant with respect to each Fund, including the following: (a) the nature, extent and quality of the services to be provided by the Fund Adviser; (b) the investment performance of the Fund and the Fund Adviser; (c) the costs of the services to be provided and profitability of the Fund Adviser and its affiliates; (d) the extent to which economies of scale would be realized as the Fund grows; and (e) whether fee levels reflect these economies of scale for the benefit of Fund investors.

#### A. NATURE, EXTENT AND QUALITY OF SERVICES

In reviewing the Fund Adviser, the Trustees considered the nature, extent and quality of the Fund Adviser's services. The Trustees reviewed materials outlining, among other things, the Fund Adviser's organization and business; the types of services that the Fund Adviser 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 and enhancements Nuveen has taken for its municipal fund product line. In connection with their continued service as Trustees, the Trustees also have a good understanding of the Fund Adviser's organization, operations and personnel. In this regard, the Trustees are familiar with and have evaluated the professional experience, qualifications and credentials of the Fund Adviser's personnel. The Trustees further reviewed materials describing, among other things, the teams and

personnel involved in the investment, research, risk-management and operational

processes involved in managing municipal funds and their respective functions. Given the Trustees' experience with the Funds and Fund Adviser, the Trustees recognized the demonstrated history of care and depth of experience of the respective personnel in managing these Funds. In this regard, the Trustees considered the continued quality of the Fund Adviser's investment process in making portfolio management decisions as well as additional refinements and improvements adopted to the portfolio management processes noted below. With respect to the services provided to municipal funds, including the Funds, the Trustees noted that the Fund Adviser continues to make refinements to its portfolio management process including, among other things, the increased use of derivatives to enhance management of risk, additional analytical software for research staff and improved municipal pricing processes.

In addition to advisory services, the independent Trustees considered the quality of any administrative or non-advisory services provided. The Fund Adviser provides the Funds with such administrative and other services (exclusive of, and in addition to, any such services provided by others for the Funds) and officers and other personnel as are necessary for the operations of the respective Fund. In connection with the review of the Investment Management Agreement, the Trustees considered the extent and quality of these other services which include, among other things, providing: product management (e.g., product positioning, performance benchmarking, risk management); fund administration (e.g., daily net asset value pricing and reconciliation, tax reporting, fulfilling regulatory filing requirements); oversight of third party service providers; administration of board relations (e.g., organizing board meetings and preparing related materials); compliance (e.g., monitoring compliance with investment policies and guidelines and regulatory requirements); and legal support (e.g., helping prepare and file registration statements, amendments thereto, proxy statements and responding to regulatory requests and/or inquiries). As the Funds operate in a highly regulated industry and given the importance of compliance, the Trustees considered, in particular, the additions of experienced personnel to the compliance teams and the enhancements to technology and related systems to support the compliance activities for the Funds (including a new reporting system for quarterly portfolio holdings).

In addition to the foregoing, the Trustees also noted the additional services that the Fund Adviser or its affiliates provide to closed-end funds, including, in particular, secondary market support activities. The Trustees recognized Nuveen's continued commitment to supporting the secondary market for the common shares of its closed-end funds through a variety of initiatives designed to raise investor and analyst awareness and understanding of closed-end funds. These efforts include providing advertising and other media relations programs, continued contact with analysts, maintaining and enhancing its website for closed-end funds, and targeted advisor communication programs. With respect to funds that utilize leverage through the issuance of preferred shares, the Trustees noted Nuveen's continued support for the preferred shares by maintaining, among other things, an in-house preferred trading desk; designating a product manager whose responsibilities include creating and disseminating product information and managing relations in connection with the preferred share auction; and maintaining systems necessary to test compliance with rating agency requirements.

Based on their review, the Trustees found that, overall, the nature, extent and quality of services provided (and expected to be provided) to the respective Funds under the Investment Management Agreement were of a high level and were satisfactory.

#### B. THE INVESTMENT PERFORMANCE OF THE FUND AND FUND ADVISER

The Board considered the investment performance for each Fund, including the Fund's historic performance as well as its performance compared to funds with similar investment objectives identified by an independent third party (the

"Performance Peer Group") and portfolio level performance against customized benchmarks, as described below. In evaluating the performance information, in certain instances, the Trustees noted that the closest Performance Peer Group for a Fund still may not adequately reflect such Fund's investment objectives, strategies and portfolio duration, thereby limiting the usefulness of the comparisons of such Fund's performance with that of the Performance Peer Group. With respect to state specific municipal funds, the Trustees recognized that certain state municipal funds do not have a corresponding state specific Performance Peer Group in which case their performance is measured against a more general municipal category for various states. The closed-end state municipal funds that do not have corresponding state-specific Performance Peer Groups are from Arizona, Connecticut, Georgia, Maryland, Massachusetts, Missouri, North Carolina, Ohio, Texas, and Virginia. Further, due to a lack of state-specific unleveraged categories, certain unleveraged state municipal funds are included in their leveraged state category (such as, the Nuveen California Select Tax-Free Income Fund, Nuveen California Municipal Value Fund, Nuveen New York Select Tax-Free Income Fund and Nuveen New York Municipal Value Fund).

In reviewing performance, the Trustees reviewed performance information including, among other things, total return information compared with the Fund's Performance Peer Group for the one-, three- and five-year periods (as applicable) ending December 31, 2005. The Trustees also reviewed the Fund's portfolio level performance (which does not reflect fund level fees and expenses) compared to customized portfolio-level benchmarks for the one- and three-year periods ending December 31, 2005 (as applicable). This analysis is designed to assess the efficacy of investment decisions against appropriate measures of risk and total return, within specific market segments. This information supplements the Fund performance information provided to the Board at each of their quarterly meetings. Based on their review, the Trustees determined that the respective Fund's absolute and relative investment performance over time had been satisfactory

#### C. FEES, EXPENSES AND PROFITABILITY

##### 1. FEES AND EXPENSES

In evaluating the management fees and expenses of a Fund, the Board reviewed, among other things, the Fund's advisory fees (net and gross management fees) and total expense ratios (before and after expense reimbursements and/or waivers) in absolute terms as well as comparisons to the gross management fees (before waivers), net management fees (after waivers) and total expense ratios (before and after waivers) of comparable funds in the Peer Universe and the Peer Group. The Trustees reviewed data regarding the construction of Peer Groups as well as the methods of measurement for the fee and expense analysis and the performance analysis. In certain cases, due to the small number of peers in the Peer Universe, the Peer Universe and Peer Group

may be the same. Further, the Trustees recognized that in certain cases the closest Peer Universe and/or Peer Group did not adequately reflect the Fund's investment objectives and strategies limiting the usefulness of comparisons. In reviewing comparisons, the Trustees also considered the size of the Peer Universe and/or Peer Group, the composition of the Peer

Group (including differences in the use of leverage and insurance) as well as differing levels of fee waivers and/or expense reimbursements. In this regard, the Trustees 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 funds launched since 1999). Based on their review of the fee and expense information provided, the Trustees determined that each Fund's net total expense ratio was within an acceptable range compared to peers.

## 2. COMPARISONS WITH THE FEES OF OTHER CLIENTS

The Trustees further reviewed data comparing the advisory fees of the Fund Adviser with fees the Fund Adviser charges to other clients, including municipal managed accounts. In general, the fees charged for separate accounts are somewhat lower than the fees assessed to the Funds. The Trustees recognized that the differences in fees are attributable to a variety of factors, including the differences in services provided, product distribution, portfolio investment policies, investor profiles, account sizes and regulatory requirements. The Trustees noted, in particular, that the range of services provided to the Funds is more extensive than that provided to managed separate accounts. As described in further detail above, such additional services include, but are not limited to, providing: product management, fund administration, oversight of third party service providers, administration of board relations, and legal support. Funds further operate in a highly regulated industry requiring extensive compliance functions compared to the other investment products. In addition to the costs of the additional services, administrative costs may also be greater for funds as the average account size for separate accounts is notably larger than the retail accounts of funds. Given the differences in the product structures, particularly the extensive services provided to closed-end municipal funds, the Trustees believe such facts justify the different levels of fees.

## 3. PROFITABILITY OF FUND ADVISER

In conjunction with its review of fees, the Trustees also considered the profitability of Nuveen Investments for advisory activities (which incorporated Nuveen's wholly-owned affiliated sub-advisers). The Trustees reviewed data comparing Nuveen's profitability with other fund sponsors prepared by three independent third party service providers as well as comparisons of the revenues, expenses and profits margins of various unaffiliated management firms with similar amounts of assets under management prepared by Nuveen. The Trustees further reviewed the 2005 Annual Report for Nuveen Investments. In considering profitability, the Trustees recognized the inherent limitations in determining profitability as well as the difficulties in comparing the profitability of other unaffiliated advisers. Profitability may be affected by numerous factors, including the methodology for allocating expenses, the adviser's business mix, the types of funds managed, the adviser's capital structure and cost of capital. Further, individual fund or product line profitability of other sponsors is generally not publicly available. Accordingly, the profitability information that is publicly available from various investment advisory or management firms may not be representative of the industry.

Notwithstanding the foregoing, in reviewing profitability, the Trustees reviewed Nuveen's methodology and assumptions for allocating expenses across product lines to determine profitability. In this regard, the methods of allocation used appeared reasonable. The Trustees also, to the extent available, compared Nuveen's profitability margins (including pre- and post-marketing profit margins) with the profitability of various unaffiliated management firms. The Trustees noted that Nuveen's profitability is enhanced due to its efficient

internal business model. The Trustees also recognized that while a number of factors affect profitability, Nuveen's profitability may change as fee waivers and/or expense reimbursement commitments of Nuveen to various funds in the Nuveen complex expire. To keep apprised of profitability and developments that may affect profitability, the Trustees have requested profitability analysis be provided periodically during the year. Based on their review, the Trustees were satisfied that the Fund Adviser's level of profitability was reasonable in light of the services provided.

In evaluating the reasonableness of the compensation, the Trustees also considered any other revenues paid to the Fund Adviser as well as any indirect benefits (such as soft dollar arrangements, if any) the Fund Adviser and its affiliates are expected to receive that are directly attributable to their management of the Funds, if any. See Section E below for additional information. Based on their review of the overall fee arrangements of the applicable Fund, the Trustees determined that the advisory fees and expenses of the respective Fund were reasonable.

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

With respect to economies of scale, the Trustees recognized the potential benefits resulting from the costs of a fund being spread over a larger asset base as a fund grows. To help ensure the shareholders share in these benefits, the Trustees have reviewed and considered the breakpoints in the advisory fee schedules that reduce advisory fees as the applicable Fund's assets grow. In addition to advisory fee breakpoints as assets in a respective Fund rise, after lengthy discussions with management, the Board also approved a complex-wide fee arrangement that was introduced on August 1, 2004. Pursuant to the complex-wide fee arrangement, the fees of the funds in the Nuveen complex, including the Funds, are reduced as the assets in the fund complex reach certain levels. In evaluating the complex-wide fee arrangement, the Trustees considered, among other things, the historic and expected fee savings to shareholders as assets grow, the amount of fee reductions at various asset levels, and that the arrangement would extend to all funds in the Nuveen complex. The Trustees noted that 2005 was the first full year to reflect the fee reductions from the complex wide fee arrangement. The Trustees also considered the impact, if any, the complex-wide fee arrangement may have on the level of services provided. Based on their review, the Trustees concluded that the breakpoint schedule and complex-wide fee arrangement currently was acceptable and desirable in providing benefits from economies of scale to shareholders.

#### E. INDIRECT BENEFITS

In evaluating fees, the Trustees also considered any indirect benefits or profits the Fund Adviser or its affiliates may receive as a result of its relationship with each Fund. In this regard, the Trustees considered revenues received by affiliates of the Fund Adviser for serving as agent at Nuveen's preferred trading desk and for serving as a co-manager in the initial public offering of new closed-end exchange traded funds.

In addition to the above, the Trustees considered whether the Fund Adviser received any benefits from soft dollar arrangements. With respect to NAM, the Trustees noted that NAM does not currently have any soft dollar arrangements and does not pay excess brokerage commissions (or spreads on principal transactions) in order to receive research services; however, the Fund Adviser may from time to time receive and have access to research generally provided to institutional clients.

The Trustees did not identify any single factor discussed previously as all-important or controlling. The Trustees, including a majority of independent Trustees, concluded that the terms of the Investment Management Agreements were fair and reasonable, that the Fund Adviser's fees are reasonable in light of the services provided to each Fund, and that the renewal of the Investment Management Agreements should be approved.

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Reinvest Automatically  
EASILY AND CONVENIENTLY

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

NUVEEN EXCHANGE-TRADED CLOSED-END FUNDS  
DIVIDEND REINVESTMENT PLAN

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

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

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

EASY AND CONVENIENT

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

HOW SHARES ARE PURCHASED

The shares you acquire by reinvesting will either be purchased on the open market or newly issued by the Fund. If the shares are trading at or above net asset value at the time of valuation, the Fund will issue new shares at the then-current market price. If the shares are trading at less than net asset value, shares for your account will be purchased on the open market. Dividends and distributions received to purchase shares in the open market will normally be invested shortly after the dividend payment date. No interest will be paid on dividends and distributions awaiting reinvestment. Because the market price of the shares may increase before purchases are completed, the average purchase price per share may exceed the market price at the time of valuation, resulting in the acquisition of fewer shares than if the dividend or distribution had been paid in shares issued by the Fund. A pro rata portion of any applicable brokerage commissions on open market purchases will be paid by Plan participants. These commissions usually will be lower than those charged on individual transactions.

FLEXIBLE

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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.

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### Other Useful INFORMATION

### QUARTERLY PORTFOLIO OF INVESTMENTS AND PROXY VOTING INFORMATION

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

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

### CEO CERTIFICATION DISCLOSURE

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

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

### GLOSSARY OF TERMS USED IN THIS REPORT

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**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.

**AVERAGE EFFECTIVE MATURITY:** The average of all the maturities of the bonds in a Fund's portfolio, computed by weighting each maturity date (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.

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

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

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

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

### BOARD OF TRUSTEES

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

### FUND MANAGER

Nuveen Asset Management  
333 West Wacker Drive  
Chicago, IL 60606

### CUSTODIAN

State Street Bank & Trust Company  
Boston, MA

### TRANSFER AGENT AND SHAREHOLDER SERVICES

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

(800) 257-8787



LEGAL COUNSEL  
Chapman and Cutler LLP  
Chicago, IL

INDEPENDENT REGISTERED  
PUBLIC ACCOUNTING FIRM  
Ernst & Young LLP  
Chicago, IL

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

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Photo of: 2 women looking at a photo album.

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.

Managing more than \$145 billion in assets, Nuveen Investments offers access to a number of different asset classes and investing solutions through a variety of products. Nuveen Investments markets its capabilities under four distinct brands: Nuveen, a leader in fixed-income investments; NWQ, a leader in value-style equities; Rittenhouse, a leader in growth-style equities; and Symphony, a leading institutional manager of market-neutral alternative investment portfolios.

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

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

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

Learn more  
about Nuveen Funds at  
[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

Logo: NUVEEN Investments

EAN-A-0706D

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, 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/etf](http://www.nuveen.com/etf). (To view the code, click on the Investor Resources drop down menu box, 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 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, Chairman of the Audit Committee, 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

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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 FEES BILLED TO FUND (3)
July 31, 2006	\$ 7,696	\$ 0	\$ 452
Percentage approved pursuant to pre-approval exception	0%	0%	0%
July 31, 2005	\$ 7,234	\$ 0	\$ 597
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 other than "Audit Fees", "Audit Related Fees", and "Tax Fees".

### 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 ("Control Affiliate") 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.

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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 ADVISED AND AFFILIATED FUND SERVICE PROVIDERS (1)	ALL OTHER FEES BILLED TO ADVISER AND AFFILIATED FUND SERVICE PROVIDERS
July 31, 2006	\$ 0	\$ 2,200	\$ 0
Percentage approved pursuant to pre-approval exception	0%	0%	0%
July 31, 2005	\$ 0	\$ 2,200	\$ 0
Percentage approved pursuant to pre-approval exception	0%	0%	0%

(1) The amounts reported for the Fund under the column heading "Tax Fees" represents amounts billed to the Adviser exclusively for the preparation for the Fund's tax return, the cost of which is borne by the Adviser. In the aggregate, for all Nuveen funds for which Ernst & Young LLP serves as independent registered public accounting firm, these fees amounted to \$275,000 in 2006 and \$282,575 in 2005.

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 de minimis 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.

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FISCAL YEAR ENDED	TOTAL NON-AUDIT FEE 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)	TOTAL NON-AUDIT FEES BILLED TO ADVISER AND AFFILIATED FUND SERVICE PROVIDERS (ALL ENGAGEMENTS)
July 31, 2006	\$ 3,352	\$ 2,200	\$ 0
July 31, 2005	\$ 3,297	\$ 2,200	\$ 0

"Non-Audit Fees billed to Adviser" for both fiscal year ends represent "Tax Fees" billed to Adviser 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 \$5,000.

ITEM 5. AUDIT COMMITTEE OF LISTED REGISTRANTS.

The registrant's Board of Directors or Trustees 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, Lawrence H. Brown, Jack B. Evans, William J. Schneider and Eugene S. Sunshine.

ITEM 6. SCHEDULE OF INVESTMENTS.

See Portfolio of Investments in Item 1.

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

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 of Trustees on its control activities on a quarterly basis.

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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 of Trustees 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 of Trustees 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
Scott R. Romans	Registered Investment Company	28	\$6.14 billion
	Other Pooled Investment Vehicles	0	\$0
	Other Accounts	4	\$.25 million

\* Assets are as of July 31, 2006. 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, including these three elements, 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 August 30, 2006, the S&P/Investortools Municipal Bond index was comprised of 47,346 securities with an aggregate current market value of \$879 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.

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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. Each portfolio manager is eligible to receive bonus compensation in the form of equity-based awards issued in securities issued by Nuveen Investments, Inc. The amount of such compensation is dependent upon the same factors articulated for cash bonus awards but also factors in his long-term potential with the firm.

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, 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 the July 31, 2006, 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.

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DOLLA  
RANGE  
EQUIT  
SECUR  
BENEF  
OWNED  
FUND

NAME OF PORTFOLIO  
MANAGER FUND

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Scott R. Romans Nuveen Arizona Dividend Advantage Municipal Fund 3 \$0

PORTFOLIO MANAGER BIO:

Scott R. Romans, PhD, joined Nuveen Investments in 2000 as a senior analyst in the education sector. In 2003, he was assigned management responsibility for several closed- and open-ended municipal bond funds most of which are state funds covering California and other western states. Currently, he manages investments for 29 Nuveen-sponsored investment companies.

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

Not applicable.

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

During this reporting period, the registrant's Board of Trustees implemented a change to the procedures by which shareholders may recommend nominees to the registrant's board of trustees by amending the registrant's by-laws to include a provision specifying the date by which shareholder nominations for election as trustee at a subsequent meeting must be submitted to the registrant. Shareholders must deliver or mail notice to the registrant not less than forty-five days nor more than sixty days prior to the first anniversary date of the date on which the registrant first mailed its proxy materials for the prior year's annual meeting; provided, however, if and only if the annual meeting is not scheduled to be held within a period that commences thirty days before the first anniversary date of the annual meeting for the preceding year and ends thirty days after such anniversary date (an annual meeting date outside such period being referred to as an "Other Annual Meeting Date" hereafter), the shareholder notice must be given no later than the close of business on the date forty-five days prior to such Other Annual Meeting Date or the tenth business day following the date such Other Annual Meeting Date is first publicly announced or disclosed. The shareholder's notice must be in writing and set forth the name, age, date of birth, business address, residence address and nationality of the person(s) being nominated and the class or series, number of all shares of the registrant owned of record or beneficially by each such person(s), any other information regarding such person required by Item 401 of Regulation S-K or Item 22 of Rule 14a-101 (Schedule 14A) under the Securities Exchange Act of 1934, as amended, any other information regarding the person(s) to be nominated that would be required to be disclosed in a proxy statement or other filings required to be made in connection with solicitation of proxies for election of trustees, and whether such shareholder believes any nominee is or will be an "interested person" (as that term is defined in the Investment Company Act of 1940, as amended) of the registrant or sufficient information to enable the registrant to make that determination and the written and signed consent of the person(s) to be nominated.

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)).



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(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.

(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/etf and there were no amendments during the period covered by this report. (To view the code, click on the Investor Resources drop down menu box, 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/ Jessica R. Droeger

Jessica R. Droeger  
Vice President and Secretary

Date: October 6, 2006

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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

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

Date: October 6, 2006

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

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

Date: October 6, 2006

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