

NUVEEN ARIZONA DIVIDEND ADVANTAGE MUNICIPAL FUND 3

Form N-Q

July 29, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM N-Q

QUARTERLY SCHEDULE OF PORTFOLIO HOLDINGS OF REGISTERED MANAGEMENT INVESTMENT
COMPANY

Investment Company Act file number 811-21157

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

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

Kevin J. McCarthy
Vice President and Secretary
333 West Wacker Drive, Chicago, Illinois 60606
(Name and address of agent for service)

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

Date of fiscal year end: 2/28

Date of reporting period: 5/31/11

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

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

Item 1. Schedule of Investments

Portfolio of Investments (Unaudited)

Nuveen Arizona Dividend Advantage Municipal Fund 3 (NXE)

May 31, 2011

Principal Amount (000)	Description (1)	Optional Call Provisions (2)	Ratings (3)	Value
	Consumer Staples – 1.0% (0.7% of Total Investments) Puerto Rico, The Children’s Trust Fund, Tobacco Settlement	5/12 at 100.00	BBB	\$ 416,110
\$ 470	Asset-Backed Refunding Bonds, Series 2002, 5.375%, 5/15/33			
	Education and Civic Organizations – 18.4% (12.7% of Total Investments)			
690	Arizona Higher Education Loan Authority, Student Loan Revenue Bonds, Series 2007B, Auction	9/11 at 100.00	A	570,458
1,250	Rate Securities, 0.630%, 11/01/41 (Alternative Minimum Tax) (4) Arizona State University, System Revenue Bonds, Series 2005, 5.000%, 7/01/20 – AMBAC Insured	7/15 at 100.00	Aa3	1,312,963
1,130	Energy Management Services LLC, Arizona State University, Energy Conservation Revenue Bonds, Main Campus Project, Series 2002, 5.250%, 7/01/18 – NPFQ Insured	7/12 at 100.00	AA–	1,171,369
520	Glendale Industrial Development Authority, Arizona, Revenue Bonds, Midwestern University, Refunding Series 2007, 5.000%, 5/15/31	5/22 at 100.00	A–	503,402
900	Glendale Industrial Development Authority, Arizona, Revenue Bonds, Midwestern University, Refunding Series 2010, 5.125%, 5/15/40	5/20 at 100.00	A–	834,210
560	Pima County Industrial Development Authority, Arizona, Charter School Revenue Bonds, Noah	12/14 at 100.00	BBB–	531,647
415	Webster Basic Schools Inc., Series 2004, 6.000%, 12/15/24 Pima County Industrial Development Authority, Arizona, Educational Revenue Bonds, Valley	7/18 at 100.00	Baa3	379,186
565	Academy Charter School Project, Series 2008, 6.500%, 7/01/38 Tucson Industrial Development Authority, Arizona, Charter School Revenue Bonds, Arizona	9/14 at 100.00	BB+	461,486
2,000	Agribusiness and Equine Center Charter School, Series 2004A, 6.125%, 9/01/34 University of Arizona, Certificates of Participation, Series 2002B, 5.125%, 6/01/20 – AMBAC Insured	6/12 at 100.00	AA–	2,067,620
8,030	Total Education and Civic Organizations			7,832,341
1,015	Health Care – 30.3% (20.8% of Total Investments) Arizona Health Facilities Authority, Hospital Revenue Bonds, Banner Health Systems, Series 2007A, 5.000%, 1/01/25	1/17 at 100.00	A+	1,018,390

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620	Arizona Health Facilities Authority, Hospital Revenue Bonds, Banner Health Systems, Series 2007B, 1.013%, 1/02/37	1/17 at 100.00	A+	426,467
2,390	Arizona Health Facilities Authority, Hospital Revenue Bonds, Banner Health Systems, Series 2008D, 5.500%, 1/01/38	1/18 at 100.00	A+	2,386,558
625	Arizona Health Facilities Authority, Revenue Bonds, Blood Systems Inc., Series 2004, 5.000%, 4/01/20	4/14 at 100.00	A	642,700
475	Glendale Industrial Development Authority, Arizona, Revenue Bonds, John C. Lincoln Health Network, Series 2005B, 5.000%, 12/01/37	12/15 at 100.00	BBB	395,927
785	Glendale Industrial Development Authority, Arizona, Revenue Bonds, John C. Lincoln Health Network, Series 2007, 5.000%, 12/01/42	12/17 at 100.00	BBB	638,684
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 100.00	A	1,863,836
1,985	Maricopa County Industrial Development Authority, Arizona, Health Facility Revenue Bonds, Catholic Healthcare West, Series 2007A, 5.250%, 7/01/32	7/17 at 100.00	A	1,911,436
2,000	Maricopa County Industrial Development Authority, Arizona, Hospital Revenue Bonds, Mayo Clinic Hospital, Series 1998, 5.250%, 11/15/37	11/11 at 100.00	AA	2,000,480
375	Show Low Industrial Development Authority, Arizona, Hospital Revenue Bonds, Navapache Regional Medical Center, Series 2005: 5.000%, 12/01/25 – RAAI Insured	12/15 at 100.00	BBB	344,884
315	Yavapai County Industrial Development Authority, Arizona, Hospital Revenue Bonds, Yavapai Regional Medical Center, Series 2003A, 6.000%, 8/01/33	12/15 at 100.00	BBB	277,102
1,000	Yavapai Regional Medical Center, Series 2003A, 6.000%, 8/01/33	8/13 at 100.00	Baa2	974,800
13,410	Total Health Care Tax Obligation/General – 10.6% (7.3% of Total Investments)			12,881,264
365	Pima County Continental Elementary School District 39, Arizona, General Obligation Bonds, Series 2011A, 2.000%, 7/01/30 – AGM Insured	7/21 at 100.00	AA+	377,060
500	Pima County Unified School District 08 Flowing Wells, Arizona, General Obligation Bonds, Series 2011B, 5.375%, 7/01/29	7/21 at 100.00	A+	514,485
750	Pima County Unified School District 6, Marana, Arizona, General Obligation Bonds, School Improvement Project 2010 Series 2011A, 5.000%, 7/01/25	7/21 at 100.00	A+	763,950
1,000	Pinal County Unified School District 1, Florence, Arizona, General Obligation Bonds, Series 2008C, 5.250%, 7/01/28	7/18 at 100.00	A	1,043,480
1,705	Scottsdale, Arizona, General Obligation Bonds, Preserve Acquisition Series 1999, 5.000%, 7/01/34	7/21 at 100.00	AAA	1,809,636

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4,320	Total Tax Obligation/General Tax Obligation/Limited – 36.5% (25.1% of Total Investments) Centerra Community Facilities District, Goodyear, Arizona, General	7/15 at		4,508,611
142	Obligation Bonds, Series 2005, 5.500%, 7/15/29	100.00	N/R	112,198
2,000	DC Ranch Community Facilities District, Scottsdale, Arizona, General Obligation Bonds, Series 2002, 5.000%, 7/15/27 – AMBAC Insured Estrella Mountain Ranch Community Facilities District, Arizona, Special Assessment Bonds, Montecito Assessment District, Series 2007:	7/13 at 100.00	A1	2,004,080
248	5.700%, 7/01/27	1/17 at 100.00	N/R	185,938
154	5.800%, 7/01/32 Estrella Mountain Ranch Community Facilities District, Goodyear,	1/17 at 100.00	N/R	109,576
236	Arizona, Special Assessment Lien Bonds, Series 2001A, 7.875%, 7/01/25 Greater Arizona Development Authority, Infrastructure Revenue	7/12 at 100.00	N/R	238,152
525	Bonds, Series 2006A, 5.000%, 8/01/23 – NPPG Insured Marana, Arizona, Tangerine Farms Road Improvement District	8/16 at 100.00	AA–	542,152
975	Revenue Bonds, Series 2006, 4.600%, 1/01/26 Marley Park Community Facilities District, City of Surprise, Arizona,	7/16 at 100.00	A2	968,009
290	Limited Tax General Obligation Bonds, Series 2008 (Bank Qualified), 6.100%, 7/15/32 Merrill Ranch Community Facilities District 1, Florence, Arizona,	7/17 at 100.00	N/R	242,188
490	General Obligation Bonds, Series 2008A, 7.400%, 7/15/33 Mohave County, Arizona, Certificates of Participation, Series 2004,	7/18 at 100.00	N/R	472,223
2,175	5.250%, 7/01/19 – AMBAC Insured Palm Valley Community Facility District 3, Goodyear, Arizona,	7/14 at 100.00	N/R	2,296,996
640	General Obligation Bonds, Series 2006, 5.300%, 7/15/31 Palm Valley Community Facility District 3, Goodyear, Arizona,	7/16 at 100.00	N/R	486,746
425	Limited Tax General Obligation Bonds, Series 2007, 5.800%, 7/15/32 Parkway Community Facilities District 1, Prescott Valley, Arizona,	7/17 at 100.00	N/R	341,721
160	General Obligation Bonds, Series 2006, 5.350%, 7/15/31 Pinal County Industrial Development Authority, Arizona,	7/16 at 100.00	N/R	122,501
1,250	Correctional Facilities Contract Revenue Bonds, Florence West Prison LLC, Series 2002A, 5.000%, 10/01/18 – ACA Insured Puerto Rico Sales Tax Financing Corporation, Sales Tax Revenue	No Opt. Call	BBB–	1,240,838
250	Bonds, First Subordinate Series 2010A, 5.375%, 8/01/39 San Luis Civic Improvement Corporation, Arizona, Municipal	2/20 at 100.00	A+	244,130
1,130	Facilities Excise Tax Revenue	7/15 at 100.00	A+	1,148,080

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2,000	Bonds, Series 2005, 5.000%, 7/01/25 – SYNCORA GTY Insured Scottsdale Municipal Property Corporation, Arizona, Excise Tax Revenue Bonds, Water & Sewer Improvements Project, Series 2010, 5.000%, 7/01/36	No Opt. Call	AAA	2,074,560
665	Tartesso West Community Facility District, Buckeye, Arizona, Limited Tax General Obligation Bonds, Series 2007, 5.900%, 7/15/32	7/17 at 100.00	N/R	541,583
1,250	Vistancia Community Facilities District, Arizona, Restricted General Obligation Bonds, Series 2005, 5.750%, 7/15/24	7/15 at 100.00	A1	1,308,600
638	Watson Road Community Facilities District, Arizona, Special Assessment Revenue Bonds, Series 2005, 6.000%, 7/01/30	7/16 at 100.00	N/R	505,768
425	Westpark Community Facilities District, Buckeye, Arizona, General Obligation Tax Increment Bonds Series 2006, 5.250%, 7/15/31	7/16 at 100.00	N/R	321,062
16,068	Total Tax Obligation/Limited Transportation – 12.6% (8.6% of Total Investments) Phoenix Civic Improvement Corporation, Arizona, Senior Lien Airport Revenue Bonds, Series 2002B:			15,507,101
550	5.750%, 7/01/16 – FGIC Insured (Alternative Minimum Tax)	7/12 at 100.00	AA–	570,114
2,300	5.250%, 7/01/21 – FGIC Insured (Alternative Minimum Tax)	7/12 at 100.00	AA–	2,327,899
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 100.00	A1	2,451,417
5,300	Total Transportation U.S. Guaranteed – 4.9% (3.4% of Total Investments) (5)			5,349,430
1,575	Maricopa County Union High School District 210, Phoenix, Arizona, General Obligation Bonds, Series 2004A, 5.000%, 7/01/20 (Pre-refunded 7/01/14) – AGM Insured	7/14 at 100.00	AA+ (5)	1,788,208
270	Maricopa County, Arizona, Hospital Revenue Bonds, Sun Health Corporation, Series 2005, 5.000%, 4/01/16 (Pre-refunded 4/01/15)	4/15 at 100.00	N/R (5)	309,579
1,845	Total U.S. Guaranteed Utilities – 15.5% (10.7% of Total Investments)			2,097,787
1,200	Maricopa County Pollution Control Corporation, Arizona, Pollution Control Revenue Refunding Bonds, Southern California Edison Company, Series 2000A, 5.000%, 6/01/35	6/20 at 100.00	A1	1,195,848
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 100.00	Baa2	1,231,838
665	Pima County Industrial Development Authority, Arizona, Revenue Bonds, Tucson Electric Power Company, Refunding Series 2008, 5.750%, 9/01/29	1/15 at 100.00	BBB–	669,382
1,660			A3	1,613,686

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	Puerto Rico Electric Power Authority, Power Revenue Bonds, Series 2005RR, 5.000%, 7/01/26 – SYNCORA GTY Insured	7/15 at 100.00		
775	Salt River Project Agricultural Improvement and Power District, Arizona, Electric System Revenue Bonds, Tender Option Bond Trust 09-9W, 17.211%, 1/01/38 (IF) (6)	1/18 at 100.00	Aa1	861,459
1,165	Salt Verde Financial Corporation, Arizona, Senior Gas Revenue Bonds, Citigroup Energy Inc Prepay Contract Obligations, Series 2007, 5.000%, 12/01/37	No Opt. Call	A	1,029,604
6,715	Total Utilities			6,601,817
	Water and Sewer – 15.6% (10.7% of Total Investments)			
955	Goodyear, Arizona, Water and Sewer Revenue Obligations, Series 2010, 5.625%, 7/01/39	7/20 at 100.00	A+	937,762
405	Oro Valley Municipal Property Corporation, Arizona, Senior Lien Water Revenue Bonds, Series 2003, 5.000%, 7/01/23 – NPFQ Insured	7/13 at 100.00	AA–	414,388
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 100.00	AA+	1,002,660
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 100.00	AAA	2,082,860
750	Puerto Rico Aqueduct and Sewerage Authority, Revenue Bonds, Senior Lien Series 2008A, 6.000%, 7/01/38	7/18 at 100.00	Baa1	752,310
	Surprise Municipal Property Corporation, Arizona, Wastewater System Revenue Bonds, Series 2007:			
425	4.700%, 4/01/22	4/14 at 100.00	N/R	429,590
490	4.900%, 4/01/32	4/17 at 100.00	N/R	447,983
615	Yuma County Industrial Development Authority, Arizona, Exempt Revenue Bonds, Far West Water & Sewer Inc. Refunding, Series 2007A, 6.375%, 12/01/37 (Alternative Minimum Tax)	12/17 at 100.00	N/R	538,014
6,640	Total Water and Sewer			6,605,567
\$ 62,798	Total Investments (cost \$62,049,853) – 145.4%			61,800,028
	MuniFund Term Preferred Shares, at Liquidation Value – (49.1)% (7)			(20,846,000)
	Other Assets Less Liabilities – 3.7%			1,536,895
				\$
	Net Assets Applicable to Common Shares – 100%			42,490,923

Fair Value Measurements

Fair value is defined as the price that the Fund would receive upon selling an investment or transferring a liability in an orderly transaction to an independent buyer in the principal or most advantageous market of the investment. A three-tier hierarchy is used to maximize the use of observable market data and minimize the use of unobservable inputs and to establish classification of fair value measurements for disclosure purposes. Observable inputs reflect the assumptions market participants would use in pricing the asset or liability. Observable inputs are based on market data obtained from sources independent of the reporting entity. Unobservable inputs reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability. Unobservable inputs are based on the best information available in the circumstances. The three-tier hierarchy of inputs is summarized in the three broad levels listed below:

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

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

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

The inputs or methodologies used for valuing securities are not an indication of the risk associated with investing in those securities. The following is a summary of the Fund's fair value measurements as of May 31, 2011:

	Level 1	Level 2	Level 3	Total
Investments:				
Municipal Bonds	\$ —	\$61,229,570	\$570,458	\$61,800,028

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

	Level 3 Municipal Bonds
Balance at the beginning of period	\$515,499
Gains (losses):	
Net realized gains (losses)	—
Net change in unrealized appreciation (depreciation)	54,959
Purchases at cost	—
Sales at proceeds	—
Net discounts (premiums)	—
Transfers in to	—

Transfers out of	—
Balance at the end of period	\$570,458

During the period ended May 31, 2011, the Fund recognized no significant transfers to/from Level 1, Level 2 or Level 3.

Income Tax Information

The following information is presented on an income tax basis. Differences between amounts for financial statement and federal income tax purposes are primarily due to timing differences in recognizing taxable market discount, timing differences in recognizing certain gains and losses on investment transactions and the treatment of investments in inverse floating rate securities reflected as financing transactions, if any. To the extent that differences arise that are permanent in nature, such amounts are reclassified within the capital accounts on the Statement of Assets and Liabilities presented in the annual report, based on their federal tax basis treatment; temporary differences do not require reclassification. Temporary and permanent differences do not impact the net asset value of the Fund.

At May 31, 2011, the cost of investments was \$62,016,285.

Gross unrealized appreciation and gross unrealized depreciation of investments at May 31, 2011, were as follows:

Gross unrealized:	
Appreciation	\$ 1,472,178
Depreciation	(1,688,435)
Net unrealized appreciation (depreciation) of investments	\$ (216,257)

- (1) All percentages shown in the Portfolio of Investments are based on net assets applicable to Common shares unless otherwise noted.
 - (2) Optional Call Provisions: Dates (month and year) and prices of the earliest optional call or redemption. There may be other call provisions at varying prices at later dates. Certain mortgage-backed securities may be subject to periodic principal paydowns.
 - (3) Ratings: Using the highest of Standard & Poor's Group ("Standard & Poor's"), Moody's Investor Service, Inc. ("Moody's") or Fitch, Inc. ("Fitch") rating. Ratings below BBB by Standard & Poor's, Baa by Moody's or BBB by Fitch are considered to be below investment grade. Holdings designated N/R are not rated by any of these national rating agencies.
 - (4) Investment valued at fair value using methods determined in good faith by, or at the discretion of, the Board of Trustees. For fair value measurement disclosure purposes, investment categorized as Level 3. Backed by an escrow or trust containing sufficient U.S. Government or U.S. Government agency securities,
 - (5) which ensure the timely payment of principal and interest. Such investments are normally considered to be equivalent to AAA rated securities.
 - (6) Investment, or portion of investment, has been pledged to collateralize the net payment obligations for investments in inverse floating rate transactions.
 - (7) MuniFund Term Preferred Shares, at Liquidation Value as a percentage of Total Investments is 33.7%.
- N/R Not rated.

(IF) Inverse floating rate investment.

Item 2. Controls and Procedures.

- a. The registrant's principal executive and principal financial officers, or persons performing similar functions, have concluded that the registrant's disclosure controls and procedures (as defined in Rule 30a-3(c) under the Investment Company Act of 1940, as amended (the "1940 Act") (17 CFR 270.30a-3(c))) are effective, as of a date within 90 days of the filing date of this report that includes the disclosure required by this paragraph, based on their evaluation of the controls and procedures required by Rule 30a-3(b) under the 1940 Act (17 CFR 270.30a-3(b)) and Rule 13a-15(b) or 15d-15(b) under the Securities Exchange Act of 1934 (17 CFR 240.13a-15(b) or 240.15d-15(b)).

- b. There were no changes in the registrant's internal control over financial reporting (as defined in Rule 30a-3(d) under the 1940 Act (17 CFR 270.30a-3(d))) that occurred during the registrant's last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the registrant's internal control over financial reporting.

Item 3. Exhibits.

File as exhibits as part of this Form a separate certification for each principal executive officer and principal financial officer of the registrant as required by Rule 30a-2(a) under the 1940 Act (17 CFR 270.30a-2(a)), exactly as set forth below: See EX-99 CERT attached hereto.

SIGNATURES

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

(Registrant) Nuveen Arizona Dividend Advantage Municipal Fund 3

By (Signature and Title) /s/ Kevin J. McCarthy
Kevin J. McCarthy
Vice President and Secretary

Date July 29, 2011

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

By (Signature and Title) /s/ Gifford R. Zimmerman
Gifford R. Zimmerman
Chief Administrative Officer (principal executive officer)

Date July 29, 2011

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

Date July 29, 2011