

NUVEEN ARIZONA PREMIUM INCOME MUNICIPAL FUND INC
Form N-CSR
October 08, 2004

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 811-7278

Nuveen Arizona Premium Income Municipal Fund, Inc.

(Exact name of registrant as specified in charter)

Nuveen Investments
333 West Wacker Drive
Chicago, IL 60606

(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

Date of fiscal year end: July 31

Date of reporting period: July 31, 2004

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.

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ITEM 1. REPORTS TO STOCKHOLDERS.

ANNUAL REPORT July 31, 2004

Nuveen Investments
Municipal Closed-End
Exchange-Traded
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 and woman sitting on porch.
Photo of: 2 children sitting in the grass.

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: Man and child
Photo of: Woman

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from your financial advisor or brokerage account.

OR

WWW.NUVEEN.COM/CORPORATE/ENROLLMENT 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 of: 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 most recent reporting period your Fund continued to provide you with tax-free monthly income and an attractive total return. For more specific information about the performance of your Fund, please see the Portfolio Managers' Perspectives and Performance Overview sections of this report.

With interest rates at historically low levels, many have begun to wonder whether interest rates will rise, and whether that possibility should cause them to adjust their holdings of fixed-income investments. No one knows what the future will bring, which is why we think a well-balanced portfolio that is structured and carefully monitored with the help of an investment professional is an important component in achieving your long-term financial goals. A well-diversified portfolio

NO ONE KNOWS WHAT THE FUTURE WILL BRING, WHICH IS WHY WE THINK A WELL-BALANCED PORTFOLIO IS AN IMPORTANT COMPONENT IN ACHIEVING YOUR LONG-TERM FINANCIAL GOALS.

may actually help to reduce your overall investment risk, and we believe that municipal bond investments like your Nuveen Fund can be important building blocks in a portfolio crafted to perform well through a variety of market conditions.

I'd also like to direct your attention to the inside front cover of this report, which explains the quick and easy process to begin receiving Fund reports like this via e-mail and the internet. Thousands of Nuveen Fund shareholders already have signed-up, and they are getting their Fund information faster and more conveniently than ever. I urge you to consider joining them.

Since 1898, Nuveen Investments has offered financial products and solutions that incorporate careful research, diversification, and the application of conservative risk-management principles. We are grateful that you have chosen us as a partner as you pursue your financial goals. We look forward to continuing to earn your trust in the months and years ahead.

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Sincerely,

/s/ Timothy R. Schwertfeger

Timothy R. Schwertfeger
Chairman of the Board

September 15, 2004

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

Portfolio Managers'
PERSPECTIVE

Portfolio managers Scott Romans, Dan Solender, and Cathryn Steeves discuss the market environment, key investment strategies and the performance of the five Funds. Scott, who joined Nuveen in 2000, has managed the Arizona Funds (NAZ, NFZ, NKR and NXE) since November 2003. With 12 years of investment experience, Dan assumed portfolio management responsibility for NTX in November 2003. After the end of this reporting period, in August 2004, he turned over responsibility for NTX to Cathryn, who has been a research analyst and portfolio manager with Nuveen since 1996.

WHAT FACTORS AFFECTED THE U.S. ECONOMY AND MUNICIPAL MARKET DURING THE FISCAL YEAR ENDED JULY 31, 2004?

During much of this reporting period, the U.S. economy demonstrated signs of improvement, as increased capital spending and a rise in consumer confidence helped fuel strong growth in the overall gross domestic product. However, toward the end of the 12-month period, higher energy costs and the improving employment picture began to raise fears of a potential pick-up in inflation. This combination of inflation concerns and general economic momentum--plus continued geopolitical uncertainty--served as a catalyst for heightened volatility in the fixed-income markets. Although interest rates remained at or near historical lows through much of this 12-month period, yields in the long-term bond markets, including the municipal market, were increasingly driven by expectations that the Federal Reserve would raise short-term interest rates and by speculation over the timing and extent of those rate hikes.

As an example of this interest rate volatility, the Bond Buyer 25 Revenue Bond Index, a widely followed municipal market benchmark, began this 12-month reporting period with a yield of 5.41%. After briefly touching 5.50%, the yield fell steadily to 4.73% by mid-March 2004. From there, the Index's yield rose back to 5.31% by July 31, 2004.

On June 30, 2004, the Fed moved to increase the fed funds rate by 25 basis points to 1.25%, the first increase in four years, noting that it anticipated taking a "measured" approach to further tightening to avoid potential derailment of the economic recovery. (On August 10, 2004, following the close of this reporting period, the Fed added another 25 basis points, bringing the target rate to 1.50%.)

In general, municipal supply nationwide remained relatively strong over the entire 12-month reporting period. About \$366.5 billion in new bonds came to market during this

period, down 7% from the preceding 12 months. The decrease in issuance was more evident late in the period, with \$214 billion in new municipal supply for the first seven months of 2004 compared with \$239 billion for January-July 2003.

HOW ABOUT ECONOMIC AND MARKET CONDITIONS IN ARIZONA AND TEXAS?

During this 12-month reporting period, Arizona's economy continued its rapid recovery, benefiting from positive demographic trends and low business costs which have attracted companies to the state. Construction, particularly in urban areas, was booming, and the outlook for tourism steadily improved. In addition, Arizona's five military bases brought more than \$6 billion into the state. As of July 2004, unemployment in Arizona was 4.4%, down from 5.8% in July 2003 and below the national average of 5.5%. Partially offsetting this expansion were a loss of jobs in the semiconductor sector and the trend toward outsourcing the state's high-tech manufacturing and business services jobs to foreign countries.

In fiscal 2004, Arizona's revenue collection showed marked improvement, with state tax collections up almost 9%. However, due to above-average population growth and new policy initiatives, Arizona continues to face education, healthcare, social services and corrections expenditures that could act as a constraint on state finances over the next few years. The fiscal 2005 \$7.2 billion budget was balanced through the use of recurring revenues and one-time measures. During the 12-month reporting period ended July 2004, issuers in Arizona sold \$7.4 billion in new municipal bonds, an increase of 1% from the previous 12-month period. Much of this increase was due to Arizona's population growth, which translated to a need for new infrastructure, such as schools and roads. As of July 31, 2004, Arizona debt was rated A1 with a stable outlook by Moody's and AA- with a negative outlook by Standard & Poor's. This reflects Moody's revised outlook as of February 2004, based on the state's improving economy and operating fund liquidity.

The Texas economy continued to emerge from recession over the fiscal year, as both jobs and payrolls showed modest gains. The services sector is now a major driver of growth in Texas, and the state's industrial base has diversified substantially from the volatile oil-driven days so much that increases in energy prices had only a minor impact on the Texas recovery. High-tech capital Austin, which boasts new research centers and upgraded production facilities, and San Antonio and Fort Worth, the beneficiaries of new investments in auto plants, were returning to healthy growth. Dallas stood to benefit from the recovery

of industrial activity along the U.S.-Mexico border following the NAFTA ruling removing restrictions on Mexican trucks. The jobless rate in Texas, which dropped over the 12 month period, to 5.7% in July 2004 from 6.8% in July 2003, remained above the July 2004 national average of 5.5%. Like Arizona, Texas had positive demographic trends, which exerted the usual budgetary pressures from growing expenditures for essential services. With no rainy day reserves, the \$117 billion state budget for fiscal 2004/2005 closed a \$10 billion gap--the result of weaker state sales tax revenues--with cuts in children's healthcare, teacher pension programs, Medicaid and other healthcare programs for low-income families. During the 12 months ended July 31, 2004, issuers in Texas sold \$27.7 billion in new municipal bonds, about equal to the issuance of the previous 12 months. As of July 31, 2004, Texas general obligation debt continued to be rated Aa1/AA, with stable outlooks, by Moody's and Standard & Poor's, respectively.

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IN THIS ENVIRONMENT, WHAT KEY STRATEGIES WERE USED TO MANAGE THE ARIZONA AND TEXAS FUNDS DURING THE 12 MONTHS ENDED JULY 31, 2004?

As the market continued to anticipate rising interest rates, we remained focused on efforts to mitigate some of the interest rate risk inherent in each Fund's portfolio. Interest rate risk is the risk that the value of a Fund's portfolio will decline if market interest rates rise (since bond prices move in the opposite direction of interest rates). Because longer-term bonds often carry more interest rate risk than those with short or intermediate terms, we tried to focus our purchase activity on attractive securities with defensive structures in the long-intermediate part of the yield curve (i.e., bonds that mature in 15 to 20 years). In many cases, bonds in this part of the curve offered yields similar to those of longer-term bonds with less inherent interest rate risk and, we believed, greater total return prospects. We also added some bonds in the 10-year maturity range when we found what we believed were attractive opportunities. We think this yield curve positioning should also help the Funds produce more consistent returns over time as interest rates rise and fall.

In keeping with this strategy, some of the bonds we purchased carried coupons that were higher than current market rates. These "premium" bonds have the potential to help cushion the impact on the value of the Funds' portfolios if interest rates continue rise. Some of these additions were financed through the sale of lower-coupon bonds with longer maturities (i.e., beyond 20 years).

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Much of the issuance in Arizona during this period came from the limited tax obligation sector, and we increased our allocations to this sector in all four of the Arizona Funds. We also worked to reduce our positions in pre-refunded bonds. In NAZ, for example, we cut our holdings of U.S. Guaranteed and escrowed bonds to 12% from 17% over the 12 months.

In addition, we worked to moderate the credit risk in NAZ, NFZ and NKR by reducing our positions in BBB rated holdings. Because lower-rated bonds were relatively scarce, especially in Arizona, and because these bonds performed well over the past 12 months, we believed it was a good time to take advantage of opportunities to sell selected bonds at attractive prices. However, we were careful to balance the desire for improved quality with the need to generate income. We continued to add new BBB rated and sub-investment grade rated bonds to some of the portfolios to better diversify their lower credit quality holdings.

HOW DID THE FUNDS PERFORM?

Individual results for the Nuveen Arizona and Texas Funds, as well as for relevant benchmarks, are presented in the accompanying table.

TOTAL RETURNS ON NET ASSET VALUE

For periods ended 7/31/04

(Annualized)

| | 1-YEAR | 5-YEAR | 10-YEAR |
|-----|--------|--------|---------|
| NAZ | 9.66% | 5.16% | 6.37% |
| NFZ | 10.56% | NA | NA |
| NKR | 9.98% | NA | NA |

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| | | | |
|---|--------|-------|-------|
| NXE | 10.25% | NA | NA |
| NTX | 10.51% | 6.62% | 6.98% |
| Lehman Brothers Municipal Bond Index ¹ | 5.79% | 6.07% | 6.38% |
| Lipper Other States Municipal Debt Funds Average ² | 9.64% | 7.01% | 7.28% |

Past performance is not predictive of future results.

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

- 1 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.
- 2 The Lipper Other States Municipal Debt Funds category average is calculated using the returns of all leveraged and unleveraged closed-end exchange-traded funds in this category for each period as follows: 1 year, 44 funds; 5 years, 19 funds; and 10 years, 17 funds. Fund and Lipper returns assume reinvestment of dividends. It should be noted that the performance of the Lipper Other States category represents the overall average of annual returns for funds from 10 different states with a wide variety of economic and municipal market conditions and investment guidelines, making direct comparisons less applicable.

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For the 12 months ended July 31, 2004, the annual returns on net asset value (NAV) for all five Funds in this report exceeded the return on the Lehman Brothers index. The Funds also outperformed or were in line with the average return for the Lipper Other States peer group over this period.

One of the primary factors benefiting the performance of each of these Funds relative to that of the unleveraged Lehman index was the Funds' use of leverage. While leveraging can add volatility to the Funds' NAVs and share prices, especially when there are substantial shifts in interest rates, this strategy can also provide opportunities for additional income and total returns for common shareholders when short-term interest rates are low and long-term rates are relatively steady or falling.

Another of our strategies that influenced the performance of the Funds, especially when compared with each other, was their yield curve positioning. For example, NFZ was more heavily weighted toward the longer end of the yield curve during this period, while NAZ was more heavily weighted toward the intermediate segment. This is one reason for the differences in their total returns over the 12 months.

All of these Funds also benefited from their allocations of lower quality bonds, which tended to outperform higher quality securities as the economy improved. This also was a reason for some of the differences between Funds' returns. As of

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July 31, 2004, NTX and NFZ had the highest allocations (14% and 11%, respectively) of bonds rated BBB, while NKR had the lowest (6%). In addition, NTX's total return was boosted by the strong rebound in the performance of its position in sub-investment grade American Airlines bonds. In NAZ and NFZ, B-rated bonds issued by Coconino County for Nevada Power were among the best performing credits.

Holdings in the healthcare sector, particularly those with lower ratings, also were strong performers over the 12 month period. All of these Funds had sizeable allocations to this sector, ranging from 15% in NTX to 11% in both NAZ and NXE, 9% in NKR and 6% in NFZ. The top performing holdings in NAZ, NKR and NXE were Ba2 rated bonds issued for Phoenix Children's Hospital, which returned 26% for the 12-month period, and non-rated Winslow Memorial Hospital bonds held by NAZ which returned 23.5%.

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The Arizona Funds also benefited from credit upgrades of two of their holdings during this period, which enhanced the bonds' prices as well as the Funds' credit quality. The first of these was Catholic Healthcare West, which was held by all four of the Arizona Funds. In October 2003, Moody's upgraded these bonds to Baa1 from Baa2, and S&P revised its rating to BBB+ from BBB in March 2004, based on the system's continued positive operating results, improved cashflow, and strategies that targeted investment in high-growth areas. The second upgrade was for bonds issued by Glendale Industrial Development Authority for Midwestern University, an osteopathic college, which were held by NAZ, NKR, and NXE. These bonds were upgraded by S&P to A- from BBB+ in June 2004. In NTX, bonds issued by the Houston Water and Sewer System (maturing in 2030) were pre-refunded during this period, positively impacting the Fund's annual performance.

Also making a positive contribution to the total returns of NAZ, NXE and NTX during this period were tobacco bonds issued by Puerto Rico and backed by revenues from the 1998 master tobacco settlement agreement.

Among the Funds' holdings that did not perform as well during this period were pre-refunded bonds, which underperformed the market as a whole as measured by the Lehman index. Revenue bonds, insured bonds and general obligation bonds also did not perform as well as some other sectors, and we worked to reduce our positions in these bonds over the past 12 months, particularly in NAZ.

HOW ABOUT THE FUNDS' DIVIDENDS AND SHARE PRICES?

With short-term interest rates remaining at historically low levels during this reporting period, the leveraged structures of these five Funds continued to support their dividend-paying capabilities. The extent of this benefit is tied in part to the short-term rates the Funds pay their MuniPreferred(R) shareholders. During periods of low short-term rates, the Funds generally pay relatively lower dividends to their MuniPreferred shareholders, which can leave more earnings to support common share dividends. During this reporting period, this strategy enabled us to increase the dividend of NFZ, while helping to maintain the dividends of NAZ, NKR, NXE and NTX.

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All of these Funds seek to pay stable dividends at rates that reflect each Fund's past results and projected future performance. During certain periods,

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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, 2004, all five of the Funds in this report had positive UNII balances.

As of the end of this reporting period, NAZ was trading at a premium to its NAV, but less than its average premium over the course of the entire 12 months. NFZ was trading at a premium greater than its 12-month average. NKR was trading at a discount to NAV that was smaller than its average discount for the period, while NXE was trading at a greater discount than its 12-month average. NTX was trading at a slightly smaller discount than its full-period average.

HOW WERE THE FUNDS POSITIONED IN TERMS OF CREDIT QUALITY AND BOND CALLS AS OF JULY 31, 2004?

Given the current geopolitical and economic climate, we continued to believe that maintaining strong credit quality was an important requirement. As of the end of July 2004, these five Funds continued to offer excellent credit quality, with allocations of bonds rated AAA/U.S. guaranteed and AA ranging from 84% in NKR to 83% in NXE, 82% in NAZ, 77% in NFZ and 76% in NTX.

As of the end of July 2004, potential call exposure for these Funds during 2004-2005 ranged from zero in NKR and NXE and 1% in NFZ to 8% in NAZ and NTX. The number of actual bond calls in all of the Funds will depend largely on market interest rates.

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Nuveen Arizona Premium Income Municipal Fund, Inc.
NAZ

Performance

OVERVIEW As of July 31, 2004

Pie Chart:

CREDIT QUALITY

(as a % of total investments)

| | |
|---------------------|-----|
| AAA/U.S. Guaranteed | 68% |
| AA | 14% |
| A | 5% |
| BBB | 7% |
| NR | 1% |
| BB or Lower | 5% |

Bar Chart:

2003-2004 MONTHLY TAX-FREE DIVIDENDS PER SHARE

| | |
|-----|--------|
| Aug | 0.0765 |
| Sep | 0.0765 |
| Oct | 0.0765 |
| Nov | 0.0765 |
| Dec | 0.0765 |
| Jan | 0.0765 |

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| | |
|-----|--------|
| Feb | 0.0765 |
| Mar | 0.0765 |
| Apr | 0.0765 |
| May | 0.0765 |
| Jun | 0.0765 |
| Jul | 0.0765 |

Line Chart:

SHARE PRICE PERFORMANCE

Weekly Closing Price

Past performance is not predictive of future results.

| | |
|---------|-------|
| 8/1/03 | 14.96 |
| | 15.03 |
| | 14.9 |
| | 14.76 |
| | 14.77 |
| | 14.8 |
| | 14.66 |
| | 14.71 |
| | 14.86 |
| | 15.27 |
| | 15.18 |
| | 15.16 |
| | 15.1 |
| | 15.05 |
| | 15.24 |
| | 15.39 |
| | 15.41 |
| | 15.49 |
| | 15.61 |
| | 16.1 |
| | 16.06 |
| | 16.17 |
| | 16.14 |
| | 16.27 |
| | 16.75 |
| | 16.96 |
| | 16.75 |
| | 16.72 |
| | 16.99 |
| | 16.96 |
| | 16.94 |
| | 17.25 |
| | 17.13 |
| | 16.95 |
| | 16.73 |
| | 16 |
| | 15.56 |
| | 15.52 |
| | 14.81 |
| | 14.65 |
| | 15 |
| | 14.7 |
| | 14.56 |
| | 14.54 |
| | 14.52 |
| | 15.1 |
| | 15.35 |
| | 15.31 |
| | 15.21 |
| 7/31/04 | 15.27 |

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FUND SNAPSHOT

| | |
|---|----------|
| Share Price | \$15.27 |
| Common Share Net Asset Value | \$14.04 |
| Premium/(Discount) to NAV | 8.76% |
| Market Yield | 6.01% |
| Taxable-Equivalent Yield ¹ | 8.77% |
| Net Assets Applicable to Common Shares (\$000) | \$62,431 |
| Average Effective Maturity (Years) | 17.46 |
| Leverage-Adjusted Duration | 9.56 |

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

| | ON SHARE PRICE | ON NAV |
|---------|----------------|--------|
| 1-Year | 7.97% | 9.66% |
| 5-Year | 3.63% | 5.16% |
| 10-Year | 7.39% | 6.37% |

SECTORS

(as a % of total investments)

| | |
|--------------------------------------|-----|
| Tax Obligation/Limited | 35% |
| U.S. Guaranteed | 12% |
| Healthcare | 11% |
| Water and Sewer | 11% |
| Education and Civic Organizations | 10% |
| Housing/Multifamily | 8% |
| Utilities | 7% |
| Other | 6% |

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%. For 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, 2004

Pie Chart:

CREDIT QUALITY

(as a % of total investments)

| | |
|---------------------|-----|
| AAA/U.S. Guaranteed | 57% |
| AA | 20% |
| A | 11% |
| BBB | 11% |
| BB or Lower | 1% |

Bar Chart:

2003-2004 MONTHLY TAX-FREE DIVIDENDS PER SHARE²

| | |
|-----|--------|
| Aug | 0.0755 |
| Sep | 0.0755 |
| Oct | 0.0755 |
| Nov | 0.0755 |
| Dec | 0.0765 |
| Jan | 0.0765 |
| Feb | 0.0765 |
| Mar | 0.0765 |
| Apr | 0.0765 |
| May | 0.0765 |
| Jun | 0.0765 |
| Jul | 0.0765 |

Line Chart:

SHARE PRICE PERFORMANCE

Weekly Closing Price

Past performance is not predictive of future results.

| | |
|--------|-------|
| 8/1/03 | 15.1 |
| | 15.12 |
| | 15.14 |
| | 15.12 |
| | 15.14 |
| | 15.05 |
| | 14.95 |
| | 14.91 |
| | 14.78 |
| | 14.66 |
| | 14.67 |
| | 14.81 |
| | 14.9 |
| | 15.04 |
| | 15.49 |
| | 15.51 |
| | 15.64 |
| | 15.65 |
| | 16.6 |
| | 16.67 |
| | 16.58 |

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| | |
|---------|-------|
| | 16.49 |
| | 16.8 |
| | 17.17 |
| | 16.9 |
| | 16.71 |
| | 16.9 |
| | 16.7 |
| | 16.8 |
| | 16.77 |
| | 16.81 |
| | 16.88 |
| | 16.7 |
| | 15.8 |
| | 15.3 |
| | 14.65 |
| | 14.66 |
| | 14.3 |
| | 13.78 |
| | 13.69 |
| | 14.12 |
| | 14.28 |
| | 14.31 |
| | 13.64 |
| | 13.98 |
| | 14.45 |
| | 14.67 |
| | 15.28 |
| | 15.05 |
| 7/31/04 | 15.4 |

FUND SNAPSHOT

| | |
|---|----------|
| ----- | |
| Share Price | \$15.40 |
| ----- | |
| Common Share Net Asset Value | \$15.00 |
| ----- | |
| Premium/(Discount) to NAV | 2.67% |
| ----- | |
| Market Yield | 5.96% |
| ----- | |
| Taxable-Equivalent Yield ¹ | 8.70% |
| ----- | |
| Net Assets Applicable to Common Shares (\$000) | \$23,153 |
| ----- | |
| Average Effective Maturity (Years) | 16.89 |
| ----- | |
| Leverage-Adjusted Duration | 10.42 |
| ----- | |

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

| | | |
|--------------------|----------------|--------|
| ----- | | |
| | ON SHARE PRICE | ON NAV |
| ----- | | |
| 1-Year | 7.05% | 10.56% |
| ----- | | |
| Since Inception | 6.66% | 7.50% |

SECTORS

(as a % of total investments)

| | |
|--------------------------------------|-----|
| Tax Obligation/Limited | 43% |
| Utilities | 15% |
| Housing/Multifamily | 10% |
| U.S. Guaranteed | 8% |
| Education and Civic Organizations | 7% |
| Water and Sewer | 6% |
| Healthcare | 6% |
| Other | 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%. For investments that generate qualified dividend income, the taxable-equivalent yield is lower.
- 2 The Fund also paid shareholders a net ordinary income distribution in December 2003 of \$0.0418 per share.

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Nuveen Arizona Dividend Advantage Municipal Fund 2
NKR

Performance

OVERVIEW As of July 31, 2004

Pie Chart:

CREDIT QUALITY

(as a % of total investments)

| | |
|---------------------|-----|
| AAA/U.S. Guaranteed | 73% |
| AA | 11% |
| A | 9% |
| BBB | 6% |
| BB or Lower | 1% |

Bar Chart:

2003-2004 MONTHLY TAX-FREE DIVIDENDS PER SHARE²

| | |
|-----|-------|
| Aug | 0.072 |
| Sep | 0.072 |
| Oct | 0.072 |
| Nov | 0.072 |
| Dec | 0.072 |

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| | |
|-----|-------|
| Jan | 0.072 |
| Feb | 0.072 |
| Mar | 0.072 |
| Apr | 0.072 |
| May | 0.072 |
| Jun | 0.072 |
| Jul | 0.072 |

Line Chart:

SHARE PRICE PERFORMANCE

Weekly Closing Price

Past performance is not predictive of future results.

| | |
|--------|-------|
| 8/1/03 | 14.05 |
| | 14.32 |
| | 14.27 |
| | 14.09 |
| | 14.09 |
| | 14.3 |
| | 14.43 |
| | 14.39 |
| | 14.3 |
| | 14.36 |
| | 14.3 |
| | 14.2 |
| | 14.5 |
| | 14.4 |
| | 14.38 |
| | 14.4 |
| | 14.24 |
| | 14.35 |
| | 14.43 |
| | 14.76 |
| | 14.74 |
| | 15.1 |
| | 15.23 |
| | 14.92 |
| | 15.31 |
| | 15.12 |
| | 15.18 |
| | 15.15 |
| | 15.44 |
| | 15.55 |
| | 15.77 |
| | 15.71 |
| | 15.7 |
| | 15.45 |
| | 15.08 |
| | 14.55 |
| | 14.6 |
| | 14.64 |
| | 14.23 |
| | 14.41 |
| | 14.6 |
| | 14.51 |
| | 14.05 |
| | 14.01 |
| | 14.1 |
| | 14.8 |
| | 14.98 |
| | 14.82 |
| | 14.6 |

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7/31/04

14.82

FUND SNAPSHOT

| | |
|---|----------|
| Share Price | \$14.82 |
| Common Share Net Asset Value | \$15.10 |
| Premium/(Discount) to NAV | -1.85% |
| Market Yield | 5.83% |
| Taxable-Equivalent Yield ¹ | 8.51% |
| Net Assets Applicable to Common Shares (\$000) | \$36,543 |
| Average Effective Maturity (Years) | 16.49 |
| Leverage-Adjusted Duration | 10.60 |

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

| | ON SHARE PRICE | ON NAV |
|--------------------|----------------|--------|
| 1-Year | 9.46% | 9.98% |
| Since Inception | 5.25% | 8.11% |

SECTORS

(as a % of total investments)

| | |
|--------------------------------------|-----|
| Tax Obligation/General | 32% |
| Tax Obligation/Limited | 29% |
| Healthcare | 9% |
| Education and Civic Organizations | 7% |
| Utilities | 7% |
| Water and Sewer | 7% |
| Housing/Multifamily | 5% |
| Other | 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%. For investments that generate qualified dividend income, the taxable-equivalent yield is lower.

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2 The Fund also paid shareholders capital gains and net ordinary income distributions in December 2003 of \$0.0441 per share.

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Nuveen Arizona Dividend Advantage Municipal Fund 3
NXE

Performance

OVERVIEW As of July 31, 2004

Pie Chart:

CREDIT QUALITY

(as a % of total investments)

| | |
|---------------------|-----|
| AAA/U.S. Guaranteed | 68% |
| AA | 15% |
| A | 6% |
| BBB | 9% |
| BB or Lower | 2% |

Bar Chart:

2003-2004 MONTHLY TAX-FREE DIVIDENDS PER SHARE²

| | |
|-----|-------|
| Aug | 0.067 |
| Sep | 0.067 |
| Oct | 0.067 |
| Nov | 0.067 |
| Dec | 0.067 |
| Jan | 0.067 |
| Feb | 0.067 |
| Mar | 0.067 |
| Apr | 0.067 |
| May | 0.067 |
| Jun | 0.067 |
| Jul | 0.067 |

Line Chart:

SHARE PRICE PERFORMANCE

Weekly Closing Price

Past performance is not predictive of future results.

| | |
|--------|-------|
| 8/1/03 | 13.96 |
| | 13.5 |
| | 13.57 |
| | 13.13 |
| | 13.26 |
| | 13.25 |
| | 13.05 |
| | 13.1 |
| | 13.19 |
| | 13.2 |
| | 13.03 |
| | 13.14 |
| | 13.21 |
| | 13.09 |
| | 13.1 |
| | 13.34 |
| | 13.21 |

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| | |
|---------|-------|
| | 13.3 |
| | 13.4 |
| | 13.45 |
| | 13.65 |
| | 14.19 |
| | 14.2 |
| | 14.1 |
| | 14.15 |
| | 14.05 |
| | 14.28 |
| | 14.23 |
| | 14.46 |
| | 14.3 |
| | 14.55 |
| | 14.77 |
| | 14.7 |
| | 14.58 |
| | 13.71 |
| | 13.76 |
| | 13.3 |
| | 12.89 |
| | 12.39 |
| | 12.43 |
| | 12.78 |
| | 12.7 |
| | 13 |
| | 12.55 |
| | 12.75 |
| | 13.25 |
| | 13.38 |
| | 13.49 |
| | 13.35 |
| 7/31/04 | 13.3 |

FUND SNAPSHOT

| | |
|---|----------|
| Share Price | \$13.30 |
| Common Share Net Asset Value | \$14.01 |
| Premium/(Discount) to NAV | -5.07% |
| Market Yield | 6.05% |
| Taxable-Equivalent Yield ¹ | 8.83% |
| Net Assets Applicable to Common Shares (\$000) | \$42,983 |
| Average Effective Maturity (Years) | 18.56 |
| Leverage-Adjusted Duration | 10.73 |

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

| | |
|----------------|--------|
| ON SHARE PRICE | ON NAV |
|----------------|--------|

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| | | |
|--------------------|--------|--------|
| 1-Year | 1.01% | 10.25% |
| ----- | | |
| Since Inception | -0.96% | 4.25% |
| ----- | | |

SECTORS

(as a % of total investments)

| | |
|--------------------------------------|-----|
| Tax Obligation/Limited | 26% |
| ----- | |
| Tax Obligation/General | 18% |
| ----- | |
| Education and Civic Organizations | 11% |
| ----- | |
| Healthcare | 11% |
| ----- | |
| Housing/Multifamily | 9% |
| ----- | |
| Transportation | 9% |
| ----- | |
| Water and Sewer | 7% |
| ----- | |
| Utilities | 5% |
| ----- | |
| Other | 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%. For 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, 2004

Pie Chart:

CREDIT QUALITY

(as a % of total investments)

| | |
|---------------------|-----|
| AAA/U.S. Guaranteed | 64% |
| AA | 12% |
| A | 9% |
| BBB | 14% |
| BB or Lower | 1% |

Bar Chart:

2003-2004 MONTHLY TAX-FREE DIVIDENDS PER SHARE

| | |
|-----|------|
| Aug | 0.08 |
| Sep | 0.08 |
| Oct | 0.08 |
| Nov | 0.08 |
| Dec | 0.08 |
| Jan | 0.08 |

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| | |
|-----|------|
| Feb | 0.08 |
| Mar | 0.08 |
| Apr | 0.08 |
| May | 0.08 |
| Jun | 0.08 |
| Jul | 0.08 |

Line Chart:

SHARE PRICE PERFORMANCE

Weekly Closing Price

Past performance is not predictive of future results.

| | |
|---------|-------|
| 8/1/03 | 14.52 |
| | 14.8 |
| | 14.45 |
| | 14.64 |
| | 14.35 |
| | 14.2 |
| | 14.23 |
| | 14.35 |
| | 14.4 |
| | 14.22 |
| | 14.27 |
| | 14.34 |
| | 14.4 |
| | 14.56 |
| | 14.66 |
| | 14.68 |
| | 14.82 |
| | 14.98 |
| | 15.02 |
| | 15.52 |
| | 15.34 |
| | 15.3 |
| | 15.55 |
| | 15.15 |
| | 15.22 |
| | 15.29 |
| | 15.55 |
| | 15.5 |
| | 15.91 |
| | 15.66 |
| | 15.8 |
| | 15.7 |
| | 15.5 |
| | 14.85 |
| | 14.49 |
| | 13.7 |
| | 13.68 |
| | 13.23 |
| | 13.36 |
| | 13.37 |
| | 13.87 |
| | 14.19 |
| | 14.1 |
| | 14.11 |
| | 13.96 |
| | 14.15 |
| | 14.3 |
| | 14.21 |
| | 14.2 |
| 7/31/04 | 14.59 |

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FUND SNAPSHOT

| | |
|---|-----------|
| Share Price | \$14.59 |
| Common Share Net Asset Value | \$15.12 |
| Premium/(Discount) to NAV | -3.51% |
| Market Yield | 6.58% |
| Taxable-Equivalent Yield ¹ | 9.14% |
| Net Assets Applicable to Common Shares (\$000) | \$143,233 |
| Average Effective Maturity (Years) | 18.05 |
| Leverage-Adjusted Duration | 8.92 |

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

| | ON SHARE PRICE | ON NAV |
|---------|----------------|--------|
| 1-Year | 5.87% | 10.51% |
| 5-Year | 6.09% | 6.62% |
| 10-Year | 6.66% | 6.98% |

SECTORS

(as a % of total investments)

| | |
|--------------------------------------|-----|
| Tax Obligation/General | 21% |
| Healthcare | 15% |
| U.S. Guaranteed | 10% |
| Tax Obligation/Limited | 10% |
| Education and Civic Organizations | 9% |
| Utilities | 7% |
| Water and Sewer | 6% |
| Housing/Multifamily | 6% |
| Long-Term Care | 5% |
| Housing/Single Family | 4% |

Other 7%

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%. For investments that generate qualified dividend income, the taxable-equivalent yield is lower.

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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
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 as of July 31, 2004, and the related statements of operations, changes in net assets and the financial highlights for 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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and financial highlights. Our procedures included confirmation of investments owned as of July 31, 2004, by correspondence with the custodian. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. 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, 2004, and the results of their operations, changes in their net assets and the financial highlights for the periods indicated therein in conformity with U.S. generally accepted accounting principles.

/s/Ernst & Young LLP

Chicago, Illinois

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September 15, 2004

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Nuveen Arizona Premium Income Municipal Fund, Inc. (NAZ)
 Portfolio of
 INVESTMENTS July 31, 2004

| PRINCIPAL AMOUNT (000) | DESCRIPTION(1) | OPTIONAL C PROVISIO |
|---------------------------|---|------------------------|
| <hr/> | | |
| | CONSUMER STAPLES - 1.3% | |
| \$ 945 | Puerto Rico, The Children's Trust Fund, Tobacco Settlement Asset-Backed Refunding Bonds, Series 2002, 5.375%, 5/15/33 | 5/12 at 100 |
| <hr/> | | |
| | EDUCATION AND CIVIC ORGANIZATIONS - 14.7% | |
| 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 |
| 1,750 | Arizona Student Loan Acquisition Authority, Student Loan Revenue Bonds, Subordinated Fixed Rate, Series 1994B, 6.600%, 5/01/10 (Alternative Minimum Tax) | 11/04 at 102 |
| 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 |
| 1,400 | Southern Arizona Capital Facilities Financing Corporation, Student Housing Revenue Bonds, La Aldea Project at the University of Arizona, Series 2002, 5.000%, 9/01/23 - MBIA Insured | 9/12 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 |
| <hr/> | | |
| | HEALTHCARE - 16.8% | |
| 2,000 | Arizona Health Facilities Authority, Hospital System Revenue Bonds, Phoenix Children's Hospital, Series 1999A, 6.125%, 11/15/22 | 11/09 at 100 |
| 1,500 | Arizona Health Facilities Authority, Hospital System Revenue Bonds, John C. Lincoln Health Network, Series 2000, 7.000%, 12/01/25 | 12/10 at 102 |

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| | | |
|------------------------------|--|--------------|
| 800 | Arizona Health Facilities Authority, Hospital Revenue Bonds, Catholic Healthcare West, Series 1999A, 6.625%, 7/01/20 | 7/10 at 101 |
| 3,000 | Mesa Industrial Development Authority, Arizona, Revenue Bonds, Discovery Health System, Series 1999A, 5.750%, 1/01/25 - MBIA Insured | 1/10 at 101 |
| 515 | Puerto Rico Industrial, Tourist, Educational, Medical, and Environmental Control Facilities Financing Authority, Hospital Revenue Bonds, Hospital de la Concepcion, Series 2000A, 6.375%, 11/15/15 | 11/10 at 101 |
| 1,500 | Scottsdale Industrial Development Authority, Arizona, Hospital Revenue Bonds, Scottsdale Healthcare, Series 2001, 5.800%, 12/01/31 | 12/11 at 101 |
| 1,055 | Industrial Development Authority, Winslow, Arizona, Hospital Revenue Bonds, Winslow Memorial Hospital Project, Series 1998, 5.500%, 6/01/22 | 6/08 at 101 |
| ----- | | |
| HOUSING/MULTIFAMILY - 11.3% | | |
| 2,011 | Glendale Industrial Development Authority, Arizona, GNMA Collateralized Mortgage Loan Multifamily Housing Revenue Bonds, Maridale Apartments Project, Series 2000A, 7.500%, 10/20/35 | 10/10 at 105 |
| 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 |
| 1,000 | Phoenix Industrial Development Authority, Arizona, GNMA Collateralized Mortgage Loan Multifamily Housing Revenue Bonds, Camelback Crossings Apartments Project, Series 2000, 6.350%, 9/20/35 | 9/10 at 103 |
| 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 |
| ----- | | |
| HOUSING/SINGLE FAMILY - 0.1% | | |
| 45 | Phoenix Industrial Development Authority, Arizona, Statewide Single Family Mortgage Revenue Bonds, Series 1995, 6.150%, 6/01/08 (Alternative Minimum Tax) | 6/05 at 102 |

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INDUSTRIALS - 2.2%

| | | | |
|----|-------|--|-----------|
| \$ | 1,345 | Yavapai County Industrial Development Authority, Arizona, Solid Waste Disposal Revenue Bonds, Waste Management Inc. Project, Series 2003B, 4.450%, 3/01/28 (Alternative Minimum Tax) (Mandatory put 3/01/08) | No Opt. C |
|----|-------|--|-----------|

LONG-TERM CARE - 0.6%

| | | |
|-----|---|-------------|
| 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 | 5/06 at 103 |
|-----|---|-------------|

TAX OBLIGATION/GENERAL - 4.0%

| | | |
|-------|---|-------------|
| 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 |
| 500 | Puerto Rico, Public Improvement General Obligation Bonds, Series 2002A, 5.500%, 7/01/19 - FGIC Insured | No Opt. C |
| 330 | Puerto Rico, Public Improvement General Obligation Bonds, Series 2001A, 5.375%, 7/01/28 | 7/11 at 100 |

TAX OBLIGATION/LIMITED - 51.6%

| | | |
|-------|--|-------------|
| 1,985 | Arizona School Facilities Board, State School Improvement Revenue Bonds, Series 2003, 5.000%, 7/01/21 | 7/13 at 100 |
| 2,000 | Arizona School Facilities Board, Certificates of Participation, Series 2004A, 5.750%, 7/01/18 - AMBAC Insured | 7/14 at 100 |
| 3,000 | 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 |
| | Bullhead City, Arizona, Special Assessment Bonds, Parkway District Improvements, Series 1993: | |
| 820 | 6.100%, 1/01/08 | 1/05 at 101 |
| 880 | 6.100%, 1/01/09 | 1/05 at 101 |
| 575 | Marana Municipal Property Corporation, Arizona, Revenue Bonds, Series 2003, 5.000%, 7/01/28 - AMBAC Insured | 7/13 at 100 |
| 1,500 | Maricopa County Industrial Development Authority, Education Revenue Bonds, Arizona Charter Schools Project I, Series 2000A, 6.750%, 7/01/29 | 7/10 at 102 |
| 3,400 | Maricopa County Stadium District, Arizona, Revenue Refunding Bonds, Series 2002, 5.375%, 6/01/18 - AMBAC Insured | 6/12 at 100 |
| | Phoenix Industrial Development Authority, Arizona, Government | |

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| | | | |
|-------|---|--|--------------|
| | Office Lease Revenue Bonds, Capitol Mall LLC Project, Series 2000: | | |
| 1,000 | 5.375%, 9/15/22 - AMBAC Insured | | 9/10 at 100 |
| 2,000 | 5.500%, 9/15/27 - AMBAC Insured | | 9/10 at 100 |
| 2,150 | Phoenix Civic Plaza Building Corporation, Arizona, Senior Lien Excise Tax Revenue Bonds, Series 1994, 6.000%, 7/01/14 | | 7/05 at 101 |
| 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 Corp., Arizona, Municipal Facilities Revenue Bonds, Series 2003, 5.000%, 1/01/27 - FGIC Insured | | 1/13 at 100 |
| 1,000 | Puerto Rico Public Buildings Authority, Guaranteed Government Facilities Revenue Refunding Bonds, Series 2002D, 5.125%, 7/01/24 | | 7/12 at 100 |
| 805 | Scottsdale Preserve Authority, Arizona, Excise Tax Revenue Bonds, Series 2004, 5.000%, 7/01/16 - FGIC Insured | | No Opt. C |
| 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 |
| 1,100 | Tucson, Arizona, Junior Lien Street and Highway User Revenue Bonds, Series 2000E, 5.000%, 7/01/18 - FGIC Insured | | 7/10 at 100 |
| 2,300 | Virgin Islands Public Finance Authority, Gross Receipts Taxes Loan Notes, Series 2003, 5.000%, 10/01/33 - RAAI Insured | | 10/14 at 100 |

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| PRINCIPAL AMOUNT (000) | DESCRIPTION(1) | OPTIONAL C PROVISIO |
|---------------------------|---|------------------------|
| | U.S. GUARANTEED - 17.4% | |
| \$ 480 | Puerto Rico, The Children's Trust Fund, Tobacco Settlement Asset-Backed Bonds, Series 2000, 5.750%, 7/01/20 (Pre-refunded to 7/01/10) | 7/10 at 100 |
| 2,250 | Maricopa County Industrial Development Authority, Arizona, Hospital Revenue Refunding Bonds, Samaritan Health Services, Series 1990A, 7.000%, 12/01/16 - MBIA Insured | No Opt. C |
| 3,000 | Mesa, Arizona, General Obligation Bonds, Series 1999, 5.000%, 7/01/18 (Pre-refunded to 7/01/09) - FGIC Insured | 7/09 at 100 |
| 2,000 | Phoenix Civic Improvement Corporation, Arizona, Junior Lien Wastewater System Revenue Bonds, Series 2000, 6.000%, 7/01/24 (Pre-refunded to 7/01/10) - FGIC Insured | 7/10 at 101 |

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| | | |
|-------|---|-------------|
| 170 | Puerto Rico, Public Improvement General Obligation Bonds, Series 2001A, 5.375%, 7/01/28 (Pre-refunded to 7/01/11) - MBIA Insured | 7/11 at 100 |
| 1,000 | Puerto Rico Highway and Transportation Authority, Highway Revenue Bonds, Series 2000B, 6.500%, 7/01/27 (Pre-refunded to 7/01/10) | 7/10 at 101 |
| 500 | Surprise Municipal Property Corporation, Arizona, Excise Tax Revenue Bonds, Series 2000, 5.700%, 7/01/20 (Pre-refunded to 7/01/09) - FGIC Insured | 7/09 at 101 |

UTILITIES - 10.8%

| | | |
|-------|---|--------------|
| 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 |
| 1,075 | Pima County Industrial Development Authority, Arizona, Lease Obligation Revenue Refunding Bonds, Tucson Electric Power Company, Series 1988A, 7.250%, 7/15/10 - FSA Insured | 1/05 at 101 |
| 2,000 | Salt River Project Agricultural Improvement and Power District, Arizona, Electric System Revenue Refunding Bonds, Series 2002A: 5.125%, 1/01/27 | 1/12 at 101 |
| 1,000 | 5.000%, 1/01/31 | 1/12 at 101 |
| 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 |

WATER AND SEWER - 15.9%

| | | |
|-------|---|--------------|
| 1,825 | Arizona Water Infrastructure Finance Authority, Water Quality Revenue Bonds, Series 2004A: 5.000%, 10/01/19 | 10/14 at 100 |
| 910 | 5.000%, 10/01/22 | 10/14 at 100 |
| 3,500 | Glendale, Arizona, Water and Sewer Revenue Bonds, Subordinate Lien, Series 2003, 5.000%, 7/01/28 | 7/13 at 100 |
| 600 | Oro Valley Municipal Property Corporation, Arizona, Senior Lien Water Revenue Bonds, Series 2003, 5.000%, 7/01/23 - MBIA Insured | 7/13 at 100 |
| 1,250 | Phoenix Civic Improvement Corporation, Arizona, Junior Lien Water System Revenue Refunding Bonds, Series 2001, 5.500%, 7/01/21 - FGIC Insured | No Opt. C |
| 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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\$ 87,136 Total Long-Term Investments (cost \$88,409,356) - 146.7%

 Other Assets Less Liabilities - 1.4%

 Preferred Shares, at Liquidation Value - (48.1)%

 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.
 - * 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.
 - ** Ratings (not covered by the report of independent registered public accounting firm): Using the higher of Standard & Poor's or Moody's rating.
 - *** Securities are backed by an escrow or trust containing sufficient U.S. Government or U.S. Government agency securities which ensures the timely payment of principal and interest. Such securities are normally considered to be equivalent to AAA rated securities.
- N/R Investment is not rated.

See accompanying notes to financial statements.

Nuveen Arizona Dividend Advantage Municipal Fund (NFZ)
 Portfolio of
 INVESTMENTS July 31, 2004

| PRINCIPAL AMOUNT (000) | DESCRIPTION(1) | OPTIONAL C PROVISIO |
|---------------------------|--|------------------------|
| ----- | | |
| | EDUCATION AND CIVIC ORGANIZATIONS - 10.0% | |
| \$ 1,020 | Mesa Industrial Development Authority, Arizona, Student Housing Revenue Bonds, ASU East/Maricopa County Community College District, Williams Campus Project, Series 2001A, 6.000%, 7/01/26 | 7/11 at 101 |
| 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 |

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| | | |
|-------------------|--|--------------|
| HEALTHCARE - 8.7% | | |
| 550 | Arizona Health Facilities Authority, Hospital System Revenue Bonds, John C. Lincoln Health Network, Series 2000, 6.875%, 12/01/20 | 12/10 at 102 |
| 365 | Arizona Health Facilities Authority, Hospital Revenue Bonds, Catholic Healthcare West, Series 1999A, 6.625%, 7/01/20 | 7/10 at 101 |
| 1,000 | Scottsdale Industrial Development Authority, Arizona, Hospital Revenue Bonds, Scottsdale Healthcare, Series 2001, 5.800%, 12/01/31 | 12/11 at 101 |

| | | |
|-----------------------------|--|--------------|
| HOUSING/MULTIFAMILY - 15.4% | | |
| 1,000 | Maricopa County Industrial Development Authority, Arizona, Multifamily Housing Revenue Bonds, Whispering Palms Apartments Project, Series 1999A, 5.900%, 7/01/29 - MBIA Insured | 7/09 at 102 |
| 1,125 | Maricopa County Industrial Development Authority, Arizona, Multifamily Housing Revenue Bonds, Syl-Mar Apartments Project, Series 2001, 5.650%, 4/20/21 (Alternative Minimum Tax) | 10/11 at 103 |
| 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 |
| 1,000 | Phoenix Industrial Development Authority, Arizona, GNMA Collateralized Mortgage Loan Multifamily Housing Revenue Bonds, Camelback Crossings Apartments Project, Series 2000, 6.350%, 9/20/35 | 9/10 at 103 |

| | | |
|------------------------------|--|--------------|
| HOUSING/SINGLE FAMILY - 1.2% | | |
| 260 | 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% | | |
| 510 | Yavapai County Industrial Development Authority, Arizona, Solid Waste Disposal Revenue Bonds, Waste Management Inc. Project, Series 2003B, 4.450%, 3/01/28 (Alternative Minimum Tax) (Mandatory put 3/01/08) | No Opt. C |

| | | |
|-------------------------------|--|-------------|
| TAX OBLIGATION/GENERAL - 4.6% | | |
| 1,020 | Tucson, Arizona, General Obligation Refunding Bonds, | 7/07 at 100 |

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Series 1997, 5.000%, 7/01/19

| TAX OBLIGATION/LIMITED - 63.9% | | |
|--------------------------------|--|-------------|
| 700 | Arizona School Facilities Board, School Improvement Revenue Bonds, Series 2001, 5.500%, 7/01/18 | 7/11 at 100 |
| 2,750 | Arizona School Facilities Board, Certificates of Participation, Series 2004A, 5.750%, 7/01/18 - AMBAC Insured | 7/14 at 100 |
| 1,000 | Arizona State Transportation Board, Highway Revenue Bonds, Series 2003A, 5.000%, 7/01/22 | 7/13 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 |
| 1,180 | Marana Municipal Property Corporation, Arizona, Revenue Bonds, Series 2003, 5.000%, 7/01/23 - AMBAC Insured | 7/13 at 100 |

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| PRINCIPAL AMOUNT (000) | DESCRIPTION(1) | OPTIONAL C PROVISIO |
|------------------------------------|--|---------------------|
| TAX OBLIGATION/LIMITED (continued) | | |
| \$ 2,000 | Maricopa County Industrial Development Authority, Arizona, Education Revenue Bonds, Horizon Community Learning Center Project, Series 2000, 6.350%, 6/01/26 - ACA Insured | 6/07 at 102 |
| 900 | Phoenix Industrial Development Arizona, Government Office Lease Revenue Bonds, Capitol Mall LLC II Project, 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 |
| 2,675 | Tempe, Arizona, Excise Tax Revenue Refunding Bonds, Series 2003, 5.000%, 7/01/21 | 7/13 at 100 |
| 1,000 | Tempe, Arizona, Excise Tax Revenue Bonds, Series 2004, 5.250%, 7/01/20 - AMBAC Insured | 7/14 at 100 |
| U.S. GUARANTEED - 12.1% | | |
| 1,000 | Mesa, Arizona, General Obligation Bonds, Series 1999, 5.000%, 7/01/17 (Pre-refunded to 7/01/09) - FGIC Insured | 7/09 at 100 |
| 1,000 | Mesa, Arizona, Utility System Revenue Bonds, Series 2000, 5.125%, 7/01/19 (Pre-refunded to 7/01/09) - FGIC Insured | 7/09 at 100 |

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| | | | |
|-------|---|--|--------------|
| | Salt River Project Agricultural Improvement and Power District, Arizona, Electric System Revenue Refunding Bonds, Series 1997A: | | |
| 140 | 5.000%, 1/01/20 (Pre-refunded to 1/01/08) | | 1/08 at 101 |
| 430 | 5.000%, 1/01/20 (Pre-refunded to 1/01/08) | | 1/08 at 101 |
| ----- | | | |
| | UTILITIES - 21.9% | | |
| 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 |
| 500 | Coconino County, Arizona, Pollution Control Revenue Bonds, Nevada Power Company Project, Series 1997B, 5.800%, 11/01/32 (Alternative Minimum Tax) | | 11/04 at 100 |
| 1,000 | Mesa, Arizona, Utility System Revenue Refunding Bonds, Series 2002, 5.250%, 7/01/17 - FGIC Insured | | No Opt. C |
| 350 | Puerto Rico Electric Power Authority, Power Revenue Bonds, Series 2002II, 5.125%, 7/01/26 - FSA Insured | | 7/12 at 101 |
| 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 |
| 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 |
| 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 |
| ----- | | | |
| | WATER AND SEWER - 9.1% | | |
| 350 | Arizona Water Infrastructure Finance Authority, Water Quality Revenue Bonds, Series 2004A, 5.000%, 10/01/22 | | 10/14 at 100 |
| 225 | Oro Valley Municipal Property Corporation, Arizona, Senior Lien Water Revenue Bonds, Series 2003, 5.000%, 7/01/23 - MBIA Insured | | 7/13 at 100 |
| 1,500 | Phoenix Civic Improvement Corporation, Arizona, Junior Lien Water System Revenue Bonds, Series 2002, 5.000%, 7/01/26 - FGIC Insured | | 7/12 at 100 |
| ----- | | | |
| \$ | 32,740 | Total Long-Term Investments (cost \$33,517,076) - 149.1% | |
| ===== | | | |
| | Other Assets Less Liabilities - 2.7% | | |
| | ----- | | |
| | Preferred Shares, at Liquidation Value - (51.8)% | | |
| | ----- | | |
| | 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.

- * 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.
- ** Ratings (not covered by the report of independent registered public accounting firm): Using the higher of Standard & Poor's or Moody's rating.
- *** Securities are backed by an escrow or trust containing sufficient U.S. Government or U.S. Government agency securities which ensures the timely payment of principal and interest. Such securities are normally considered to be equivalent to AAA rated securities.

See accompanying notes to financial statements.

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Nuveen Arizona Dividend Advantage Municipal Fund 2 (NKR)
Portfolio of
INVESTMENTS July 31, 2004

| PRINCIPAL AMOUNT (000) | DESCRIPTION(1) | OPTIONAL C PROVISIO |
|---------------------------|--|------------------------|
| ----- | | |
| | EDUCATION AND CIVIC ORGANIZATIONS - 10.2% | |
| \$ 715 | Arizona State University, System Revenue Bonds, Series 2002, 5.750%, 7/01/27 - FGIC Insured | 7/12 at 100 |
| 1,250 | Glendale Industrial Development Authority, Arizona, Revenue Bonds, Midwestern University, Series 2001A, 5.875%, 5/15/31 | 5/11 at 101 |
| 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 |
| | 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 |
| ----- | | |
| | HEALTHCARE - 12.9% | |
| 735 | Arizona Health Facilities Authority, Hospital System Revenue Bonds, Phoenix Children's Hospital, Series 2002A, 6.250%, 2/15/21 | 2/12 at 101 |
| 400 | Arizona Health Facilities Authority, Hospital Revenue Bonds, Catholic Healthcare West, Series 1999A, 6.625%, 7/01/20 | 7/10 at 101 |

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| | | |
|--------------------------------|--|--------------|
| 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 | Mesa Industrial Development Authority, Arizona, Revenue Bonds, Discovery Health System, Series 1999A, 5.625%, 1/01/29 - MBIA Insured | 1/10 at 101 |
| 1,000 | Scottsdale Industrial Development Authority, Arizona, Hospital Revenue Bonds, Scottsdale Healthcare, Series 2001, 5.800%, 12/01/31 | 12/11 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 |
| ----- | | |
| HOUSING/MULTIFAMILY - 6.9% | | |
| 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 Projects, Series 2001A-1, 6.000%, 10/20/31 | 10/11 at 105 |
| 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 |
| ----- | | |
| HOUSING/SINGLE FAMILY - 0.4% | | |
| 125 | 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 |
| ----- | | |
| INDUSTRIALS - 2.3% | | |
| 810 | Yavapai County Industrial Development Authority, Arizona, Solid Waste Disposal Revenue Bonds, Waste Management Inc. Project, Series 2003B, 4.450%, 3/01/28 (Alternative Minimum Tax) (Mandatory put 3/01/08) | No Opt. C |
| ----- | | |
| TAX OBLIGATION/GENERAL - 46.9% | | |
| 1,725 | Chandler, Arizona, General Obligation Bonds, Series 2002, 5.000%, 7/01/17 | 7/12 at 100 |
| 1,000 | Gilbert, Arizona, General Obligation Bonds, Series 2002A, 5.000%, 7/01/18 - AMBAC Insured | 7/11 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 |
| 2,000 | 5.375%, 7/01/16 - FSA Insured | No Opt. C |

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| | | |
|-------|---|-----------|
| 2,165 | Maricopa County Unified School District District 69, Paradise Valley, Arizona, General Obligation Refunding Bonds, Series 2002A, 5.250%, 7/01/14 - FGIC Insured | No Opt. C |
|-------|---|-----------|

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| PRINCIPAL AMOUNT (000) | DESCRIPTION(1) | OPTIONAL C PROVISIO |
|------------------------------------|--|------------------------|
| ----- | | |
| TAX OBLIGATION/GENERAL (continued) | | |
| \$ 1,000 | Maricopa County Unified School District 89, Dysart, Arizona, General Obligation Bonds, Series 2004B, 5.250%, 7/01/20 - FSA Insured | 7/14 at 100 |
| 1,000 | Mesa, Arizona, General Obligation Bonds, Series 2000, 6.500%, 7/01/11 - FGIC Insured | No Opt. C |
| 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 |
| 250 | 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 |
| 1,500 | Scottsdale, Arizona, General Obligation Bonds, Series 2002, 5.000%, 7/01/24 | 7/11 at 100 |
| ----- | | |
| TAX OBLIGATION/LIMITED - 43.3% | | |
| | 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 |
| 1,000 | Arizona State Transportation Board, Highway Revenue Bonds, Series 2002B, 5.250%, 7/01/21 | 7/12 at 100 |
| 670 | Goodyear Community Facilities Utility District 1, Arizona, General Obligation Bonds, Series 2003, 5.350%, 7/15/28 - ACA Insured | 7/13 at 100 |
| 1,000 | Maricopa County Public Finance Authority, 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 |

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| | | |
|-----------------------|--|--------------|
| 2,645 | 5.375%, 6/01/19 - AMBAC Insured | 6/12 at 100 |
| 1,000 | Mesa, Arizona, Street and Highway User Tax Revenue Bonds, Series 2004, 5.125%, 7/01/23 - FSA Insured | 7/14 at 100 |
| 1,500 | Phoenix Industrial Development, Arizona, Government Office Lease Revenue Bonds, Capitol Mall LLC II Project, Series 2001, 5.250%, 9/15/16 - AMBAC Insured | 3/12 at 100 |
| 460 | Pima County Industrial Development Authority, Arizona, Charter School Revenue Bonds, Noah Webster Basic Schools Inc., Series 2004, 6.000%, 12/15/24 | 12/14 at 100 |
| 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, 5.125%, 7/01/24 | 7/12 at 100 |
| 1,000 | Tucson, Arizona, Junior Lien Street and Highway User Revenue Bonds, Series 2000E, 5.000%, 7/01/18 - FGIC Insured | 7/10 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 |
| ----- | | |
| TRANSPORTATION - 5.5% | | |
| 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 (Alternative Minimum Tax) - FGIC Insured | 7/12 at 100 |
| ----- | | |
| UTILITIES - 10.1% | | |
| 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 |
| 1,000 | Mesa, Arizona, Utility System Revenue Bonds, Series 2002, 5.000%, 7/01/20 - FGIC Insured | 7/11 at 100 |
| 1,000 | Mesa, Arizona, Utility System Revenue Refunding Bonds, Series 2002, 5.250%, 7/01/17 - FGIC Insured | No Opt. C |
| 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 |

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Nuveen Arizona Dividend Advantage Municipal Fund 2 (NKR) (continued)
Portfolio of INVESTMENTS July 31, 2004

| PRINCIPAL AMOUNT (000) | DESCRIPTION(1) | OPTIONAL C PROVISIO |
|---------------------------|---|------------------------|
| | WATER AND SEWER - 10.1% | |
| \$ 555 | Arizona Water Infrastructure Finance Authority, Water Quality Revenue Bonds, Series 2004A, 5.000%, 10/01/22 | 10/14 at 100 |
| 500 | Maricopa County Industrial Development Authority, Arizona, Water System Improvement Revenue Bonds, Chaparral City Water Company Project, Series 1997A, 5.400%, 12/01/22 (Alternative Minimum Tax) - AMBAC Insured | 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 |
| 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 |
| 1,000 | Tucson, Arizona, Water System Revenue Refunding Bonds, Series 2002, 5.500%, 7/01/18 - FGIC Insured | 7/12 at 102 |
| \$ 51,200 | Total Long-Term Investments (cost \$52,483,361) - 148.6% | |
| | Other Assets Less Liabilities - 2.0% | |
| | Preferred Shares, at Liquidation Value - (50.6)% | |
| | 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.

* 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.

** Ratings (not covered by the report of independent registered public accounting firm): Using the higher of Standard & Poor's or Moody's rating.

See accompanying notes to financial statements.

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Nuveen Arizona Dividend Advantage Municipal Fund 3 (NXE)
 Portfolio of
 INVESTMENTS July 31, 2004

| PRINCIPAL AMOUNT (000) | DESCRIPTION(1) | OPTIONAL C PROVISIO |
|---------------------------|---|------------------------|
| | CONSUMER STAPLES - 3.8% | |
| \$ 1,890 | 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 - 16.4% | |
| 2,000 | Arizona State University, System Revenue Bonds, Series 2002, 5.750%, 7/01/27 - FGIC Insured | 7/12 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 |
| 500 | Glendale Industrial Development Authority, Arizona, Revenue Bonds, Midwestern University, Series 1998A, 5.375%, 5/15/28 | 5/08 at 101 |
| 2,000 | University of Arizona, Certificates of Participation, Series 2002B, 5.125%, 6/01/20 - AMBAC Insured | 6/12 at 100 |
| | HEALTHCARE - 16.1% | |
| | Arizona Health Facilities Authority, Hospital System Revenue Bonds, Phoenix Children's Hospital, Series 1999A: | |
| 750 | 6.125%, 11/15/22 | 11/09 at 100 |
| 520 | 6.250%, 11/15/29 | 11/09 at 100 |
| 1,000 | Arizona Health Facilities Authority, Hospital System Revenue Bonds, John C. Lincoln Health Network, Series 2000, 6.875%, 12/01/20 | 12/10 at 102 |
| 300 | Arizona Health Facilities Authority, Hospital Revenue Bonds, Catholic Healthcare West, Series 1999A, 6.625%, 7/01/20 | 7/10 at 101 |
| 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 |
| 1,250 | Scottsdale Industrial Development Authority, Arizona, Hospital Revenue Bonds, Scottsdale Healthcare, Series 2001, 5.800%, 12/01/31 | 12/11 at 101 |
| 1,000 | Yavapai County Industrial Development Authority, Arizona, | 8/13 at 100 |

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Hospital Revenue Bonds, Yavapai Regional Medical Center,
Series 2003A, 6.000%, 8/01/33

| HOUSING/MULTIFAMILY - 13.9% | | |
|-----------------------------|---|--------------|
| 1,750 | Maricopa County Industrial Development Authority, Arizona, Multifamily Housing Senior Revenue Bonds, National Voluntary Health Facilities II Project, Series 1998A, 5.100%, 1/01/33 - FSA Insured | 1/18 at 100 |
| 2,500 | Maricopa County Industrial Development Authority, Arizona, GNMA Collateralized Multifamily Housing Revenue Bonds, Villas at Augusta Project, Series 2000, 6.500%, 10/20/33 | 10/10 at 105 |
| 1,545 | Phoenix Industrial Development Authority, Arizona, GNMA Collateralized Multifamily Housing Revenue Bonds, Campaigne Place on Jackson, Series 2001, 5.600%, 6/20/21 (Alternative Minimum Tax) | 6/11 at 102 |

| INDUSTRIALS - 2.2% | | |
|--------------------|--|-----------|
| 945 | Yavapai County Industrial Development Authority, Arizona, Solid Waste Disposal Revenue Bonds, Waste Management Inc. Project, Series 2003B, 4.450%, 3/01/28 (Alternative Minimum Tax) (Mandatory put 3/01/08) | No Opt. C |

| TAX OBLIGATION/GENERAL - 26.4% | | |
|--------------------------------|---|-------------|
| 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 |

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Nuveen Arizona Dividend Advantage Municipal Fund 3 (NXE) (continued)
Portfolio of INVESTMENTS July 31, 2004

| PRINCIPAL AMOUNT (000) | DESCRIPTION(1) | OPTIONAL C PROVISIO |
|------------------------------------|---|------------------------|
| <hr/> | | |
| TAX OBLIGATION/GENERAL (continued) | | |
| \$ 1,000 | Maricopa County School District 11, Peoria Unified, Arizona, General Obligation Refunding Bonds, Series 2002, 5.000%, 7/01/15 - FSA Insured | No Opt. C |

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| | | |
|-------|--|-------------|
| 765 | Maricopa County Unified School District 69, Paradise Valley, Arizona, General Obligation Refunding Bonds, Series 2002, 5.000%, 7/01/15 - FSA Insured | No Opt. C |
| 1,000 | Maricopa County Unified School District 95, Queen Creek, Arizona, General Obligation Bonds, Series 2002, 5.000%, 7/01/14 - FGIC Insured | No Opt. C |
| 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 |
| 1,150 | Scottsdale, Arizona, General Obligation Refunding Bonds, Series 2002, 5.000%, 7/01/16 | No Opt. C |
| 440 | Tucson, Arizona, General Obligation Bonds, Series 2001B, 5.000%, 7/01/20 | 7/11 at 100 |

TAX OBLIGATION/LIMITED - 39.3%

| | | |
|-------|--|--------------|
| 2,000 | Arizona School Facilities Board, School Improvement Revenue Bonds, Series 2002, 5.250%, 7/01/20 | 7/12 at 100 |
| 3,000 | Arizona State Transportation Board, Highway Revenue Refunding Bonds, Series 2002A, 5.250%, 7/01/18 | 7/12 at 102 |
| 1,000 | Arizona State Transportation Board, Highway Revenue Bonds, Series 2002B, 5.250%, 7/01/22 | 7/12 at 100 |
| 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 |
| 800 | Goodyear Community Facilities Utility District 1, Arizona, General Obligation Bonds, Series 2003, 5.350%, 7/15/28 - ACA Insured | 7/13 at 100 |
| 2,000 | Mohave County, Arizona, Certificates of Participation, Series 2004, 5.250%, 7/01/19 - AMBAC Insured | 7/14 at 100 |
| 540 | Pima County Industrial Development Authority, Arizona, Charter School Revenue Bonds, Noah Webster Basic Schools Inc., Series 2004, 6.000%, 12/15/24 | 12/14 at 100 |
| 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 |
| 2,770 | Tempe, Arizona, Excise Tax Revenue Refunding Bonds, Series 2003, 5.000%, 7/01/22 | 7/13 at 100 |

TRANSPORTATION - 13.9%

| | | |
|-------|--|-------------|
| 1,000 | Phoenix, Arizona, Civic Improvement Corporation, Senior Lien Airport Revenue Bonds, Series 2002B: 5.750%, 7/01/16 (Alternative Minimum Tax) - FGIC Insured | 7/12 at 100 |
|-------|--|-------------|

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| | | |
|------------------------|---|--------------|
| 2,300 | 5.250%, 7/01/21 (Alternative Minimum Tax) - FGIC Insured | 7/12 at 100 |
| 2,450 | Tucson Airport Authority Inc., Arizona, Revenue Refunding Bonds, Series 2001B, 5.000%, 6/01/20 (Alternative Minimum Tax) - AMBAC Insured | 6/11 at 100 |
| ----- | | |
| UTILITIES - 7.3% | | |
| 1,750 | Maricopa County, Arizona, Pollution Control Corporation Revenue Bonds, Arizona Public Service Company Palo Verde Project, Series 2002A, 5.050%, 5/01/29 - AMBAC Insured | 11/12 at 100 |
| 360 | Salt River Project Agricultural Improvement and Power District, Arizona, Electric System Revenue Bonds, Series 2002B: 5.000%, 1/01/22 | 1/13 at 100 |
| 1,000 | 5.000%, 1/01/31 | 1/13 at 100 |
| ----- | | |
| WATER AND SEWER - 9.8% | | |
| 650 | Arizona Water Infrastructure Finance Authority, Water Quality Revenue Bonds, Series 2004A, 5.000%, 10/01/22 | 10/14 at 100 |
| 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 |

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| PRINCIPAL AMOUNT (000) | DESCRIPTION(1) | OPTIONAL C PROVISIO |
|--|--|---------------------|
| ----- | | |
| WATER AND SEWER (continued) | | |
| \$ 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 |
| 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 |
| ----- | | |
| \$ 61,785 | Total Long-Term Investments (cost \$64,073,701) - 149.1% | |
| ===== | | |
| Other Assets Less Liabilities - 2.1% | | |
| ----- | | |
| Preferred Shares, at Liquidation Value - (51.2)% | | |
| ----- | | |
| 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.

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* 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.

** Ratings (not covered by the report of independent registered public accounting firm): Using the higher of Standard & Poor's or Moody's rating.

See accompanying notes to financial statements.

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Nuveen Texas Quality Income Municipal Fund (NTX)
Portfolio of
INVESTMENTS July 31, 2004

| PRINCIPAL AMOUNT (000) | DESCRIPTION(1) | OPTIONAL C PROVISIO |
|---------------------------|---|------------------------|
| ----- | | |
| | CONSUMER STAPLES - 1.7% | |
| \$ 2,835 | 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 - 12.4% | |
| 205 | Brazos Higher Education Authority Inc., Texas, Student Loan Revenue Refunding Bonds, Subordinate Series 1993A-2, 6.800%, 12/01/04 (Alternative Minimum Tax) | No Opt. C |
| 1,000 | Raven Hills Higher Education Corporation, Texas, Student Housing Revenue Bonds, Lamar University - Cardinal Village LLC, Series 2001A, 5.250%, 8/01/24 - MBIA Insured | 8/11 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 |
| 2,000 | Texas State University System, Financing Revenue Refunding Bonds, Series 2002, 5.000%, 3/15/20 - FSA Insured | 3/12 at 100 |
| 1,445 | Tyler Junior College District, Smith and Van Zanlt Counties, Texas, Combined Fee Improvement Revenue Refunding Bonds, Series 1994, 5.900%, 8/15/13 - MBIA Insured | 8/04 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, | 4/12 at 100 |

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Series 2001, 5.000%, 4/15/24 - FSA Insured

| | | |
|---------------|---|-------------|
| ENERGY - 2.1% | | |
| 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 |

| | | |
|--------------------|---|--------------|
| HEALTHCARE - 21.7% | | |
| 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 | 9/05 at 102 |
| | 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 |
| 1,500 | Harris County Health Facilities Development Corporation, Texas, Revenue Bonds, St. Luke's Episcopal Hospital, Series 2001A, 5.500%, 2/15/21 | 8/11 at 100 |
| 2,000 | Harris County Health Facilities Development Corporation, Texas, Hospital Revenue Bonds, Memorial Hermann Healthcare System, Series 2001A, 6.375%, 6/01/29 | 6/11 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 |
| 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 |
| 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 | 11/10 at 101 |

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| PRINCIPAL AMOUNT (000) | DESCRIPTION(1) | OPTIONAL C PROVISIO |
|---------------------------|--|------------------------|
| ----- | | |
| | HEALTHCARE (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 Health Center, Series 2001, 6.000%, 7/01/31 | 7/12 at 100 |
| ----- | | |
| | HOUSING/MULTIFAMILY - 8.4% | |
| | Bexar County Housing Finance Corporation, Texas, 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 |
| | Grand Prairie Housing Finance Corporation, Texas, GNMA Multifamily Housing Revenue Bonds, Landings of Carrier Project, Series 2000A: | |
| 1,000 | 6.650%, 9/20/22 | 9/10 at 105 |
| 2,030 | 6.750%, 9/20/28 | 9/10 at 105 |
| 5,668 | 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 |
| ----- | | |
| | HOUSING/SINGLE FAMILY - 5.8% | |
| 2,800 | 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 |
| 205 | Galveston Property Finance Authority Inc., Texas, Single Family Mortgage Revenue Bonds, Series 1991A, 8.500%, 9/01/11 | 9/04 at 100 |
| 325 | Houston Housing Finance Corporation, Texas, Single Family Mortgage Revenue Refunding Bonds, Series 1993A, 5.950%, 12/01/10 - FSA Insured | 12/04 at 101 |
| 1,575 | Texas Department of Housing, Single Family Mortgage Revenue Bonds, Series 1996E, 6.000%, 9/01/17 - MBIA Insured | 9/06 at 102 |
| 2,970 | Texas Department of Housing and Community Affairs, Single Family Mortgage Bonds, Series 2002B, 5.550%, 9/01/33 (Alternative Minimum Tax) - MBIA Insured | 3/12 at 100 |
| 160 | Victoria Housing Finance Corporation, Texas, FNMA Single Family Mortgage Revenue Refunding Bonds, Series 1995, | No Opt. C |

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8.125%, 1/01/11

| LONG-TERM CARE - 7.2% | | |
|-----------------------|---|--------------|
| | Bell County Health Facilities Development Corporation, Texas, Retirement Facility Revenue Bonds, Buckner Retirement Services Inc. Obligated Group Project, Series 1998: | |
| 3,400 | 5.250%, 11/15/19 | 11/08 at 101 |
| 5,000 | 5.250%, 11/15/28 | 11/08 at 101 |
| 2,000 | Tarrant County Health Facilities Development Corporation, Texas, Tax-Exempt Mortgage Revenue Bonds, South Central Nursing Homes Inc. Project, Series 1997A, 6.000%, 1/01/37 - MBIA Insured | 1/08 at 105 |

| MATERIALS - 4.5% | | |
|------------------|---|-------------|
| 3,000 | Cass County Industrial Development Corporation, Texas, Environmental Improvement Revenue Bonds, International Paper Company Project, Series 2000A, 6.600%, 3/15/24 (Alternative Minimum Tax) | 3/10 at 101 |
| 3,000 | Guadalupe-Blanco River Authority, Texas, Sewage and Solid Waste Disposal Facility Bonds, E.I. DuPont de Nemours and Company Project, Series 1996, 6.400%, 4/01/26 (Alternative Minimum Tax) | 4/06 at 102 |

| TAX OBLIGATION/GENERAL - 30.3% | | |
|--------------------------------|---|-------------|
| 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 |
| 1,450 | Donna Independent School District, Hidalgo County, Texas, Unlimited Tax School Building Bonds, Series 2000, 6.000%, 2/15/17 | 2/11 at 100 |
| 1,750 | El Paso County, Texas, Certificates of Obligation, Series 2001, 5.000%, 2/15/21 - FSA Insured | 2/12 at 100 |
| 2,000 | Harlingen Independent School District, Cameron County, Texas, Unlimited Tax School Building Bonds, Series 1999, 5.650%, 8/15/29 | 8/09 at 100 |

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Nuveen Texas Quality Income Municipal Fund (NTX) (continued)
Portfolio of INVESTMENTS July 31, 2004

| PRINCIPAL AMOUNT (000) | DESCRIPTION(1) | OPTIONAL C PROVISIO |
|---------------------------|----------------|------------------------|
|---------------------------|----------------|------------------------|

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TAX OBLIGATION/GENERAL (continued)

| | | | |
|----|---|--|--------------|
| | 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 |
| | 1,500 | Judson Independent School District, Bexar County, Texas, General Obligation Refunding Bonds, Series 2002, 5.250%, 2/01/21 | 2/11 at 100 |
| | 2,600 | Klein Independent School District, Harris County, Texas, Unlimited Tax Schoolhouse Bonds, Series 1999A, 5.000%, 8/01/18 | 8/09 at 100 |
| | 5,220 | Leander Independent School District Williamson & 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 |
| | 1,545 | Montgomery County, Texas, General Obligation Refunding Bonds, Series 1997, 0.000%, 3/01/14 -MBIA Insured | 9/07 at 72 |
| | 2,000 | 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 |
| | 500 | Puerto Rico, Public Improvement General Obligation Bonds, Series 2001A, 5.500%, 7/01/29 | No Opt. C |
| | 1,825 | Socorro Independent School District, El Paso County, Texas, General Obligation Bonds, Series 1996, 5.750%, 2/15/21 | 2/06 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 |
| | 2,000 | Texas State, General Obligation Bonds, Veterans Land Board, Series 1994, 6.400%, 12/01/24 (Alternative Minimum Tax) | 12/04 at 100 |
| | 2,000 | Texas State, General Obligation Bonds, Water Financial Assistance Program, Series 2001, 5.250%, 8/01/23 | 8/11 at 100 |
| | 1,500 | Texas State Public Finance Authority, General Obligation Refunding Bonds, Series 2002, 5.000%, 10/01/18 | 10/12 at 100 |
| | 1,795 | United Independent School District, Webb County, Texas, Unlimited Tax School Building Bonds, Series 2000, 5.375%, 8/15/18 | 8/12 at 100 |
| | 5,290 | Weslaco Independent School District, Hidalgo County, Texas, General School Building Obligation Bonds, Series 2000, 5.500%, 2/15/25 | 2/10 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 |
| | 1,800 | Williamson County, Texas, General Obligation Bonds, | 2/12 at 100 |

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Series 2002, 5.500%, 2/15/16 - FSA Insured

| TAX OBLIGATION/LIMITED - 14.0% | | |
|--------------------------------|--|--------------|
| 4,500 | Austin, Texas, Hotel Occupancy Tax Subordinate Lien Revenue Refunding Bonds, Series 1999, 5.800%, 11/15/29 - AMBAC Insured | 11/09 at 100 |
| | Bexar County, Texas, Combined Tax and Revenue Certificates of Obligation, Series 2004: | |
| 1,235 | 5.000%, 6/15/17 | 6/14 at 100 |
| 1,295 | 5.000%, 6/15/18 | 6/14 at 100 |
| 1,260 | 5.000%, 6/15/19 | 6/14 at 100 |
| 1,275 | Copperas Cove, Texas, Certificates of Obligation, Series 2003, 5.000%, 8/15/23 - MBIA Insured | 8/12 at 100 |
| 2,305 | Corpus Christi, Texas, Certificates of Obligation, Limited Tax and Hotel Occupancy Tax Revenue Bonds, Series 2002, 5.500%, 9/01/21 - FSA Insured | 9/12 at 100 |
| 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 |
| 1,000 | Laredo, Texas, Sports Venue Sales Tax Revenue Bonds, Series 2001, 5.300%, 3/15/26 - FGIC Insured | 3/09 at 100 |
| 1,255 | Pasadena, Texas, Certificates of Obligation, Series 2002, 5.125%, 4/01/24 - FGIC Insured | 4/11 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 |

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| PRINCIPAL AMOUNT (000) | DESCRIPTION(1) | OPTIONAL C PROVISIO |
|------------------------|---|---------------------|
| ----- | | |
| TRANSPORTATION - 3.3% | | |
| \$ 1,000 | Austin, Texas, Airport System Prior Lien Revenue Bonds, Series 2003, 5.250%, 11/15/16 - MBIA Insured | 11/13 at 100 |
| 2,600 | Dallas-Ft. Worth International Airport Facility Improvement Corporation, Texas, Revenue Bonds, American Airlines Inc., Series 1999, 6.375%, 5/01/35 (Alternative Minimum Tax) | 11/09 at 101 |
| 2,000 | Houston, Texas, Airport System Subordinate Lien Revenue Bonds, Series 2000A, 5.625%, 7/01/30 (Alternative Minimum Tax) - FSA Insured | 7/10 at 100 |

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U.S. GUARANTEED - 14.5%

| | | |
|-------|--|--------------|
| 160 | Abilene Housing Development Corporation, Texas, Section 8 First Lien Revenue Bonds, Abilene East Apartments, Series 1978, 7.000%, 7/01/08 | No Opt. C |
| 1,000 | Caddo Mills Independent School District, Hunt County, Texas, General Obligation Unlimited Tax School Building and Refunding Bonds, Series 1995, 6.375%, 8/15/25 (Pre-refunded to 2/15/05) | 2/05 at 100 |
| 520 | Puerto Rico, The Children's Trust Fund, Tobacco Settlement Asset-Backed Bonds, Series 2000, 5.750%, 7/01/20 (Pre-refunded to 7/01/10) | 7/10 at 100 |
| 1,185 | Fort Bend County Levee Improvement District 11, Texas, Unlimited Tax Levee Improvement Bonds, Series 1994, 6.900%, 9/01/17 (Pre-refunded to 9/01/04) - MBIA Insured | 9/04 at 100 |
| 1,450 | Galveston Industrial Development Corporation, Texas, Sales Tax Revenue Bonds, Series 1995, 5.750%, 9/01/15 (Pre-refunded to 9/01/05) - AMBAC Insured | 9/05 at 100 |
| 5,275 | Houston, Texas, Water and Sewer System Junior Lien Revenue Refunding Bonds, Series 2000B, 5.250%, 12/01/30 (Pre-refunded to 12/01/10) - FGIC Insured | 12/10 at 100 |
| 800 | Laredo, Webb County, Texas, Waterworks System Combined Tax and Revenue Certificates of Obligation, Series 1994, 5.625%, 8/15/11 (Pre-refunded to 8/15/04) - MBIA Insured | 8/04 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 | No Opt. C |
| 2,500 | Retama Development Corporation, Texas, Special Facilities Revenue Bonds, Retama Park Racetrack Project, Series 1993, 8.750%, 12/15/18 | No Opt. C |
| 1,895 | San Antonio, Texas, Hotel Occupancy Tax Revenue Bonds, Henry B. Gonzalez Convention Center Project, Series 1996, 5.700%, 8/15/26 (Pre-refunded to 8/15/06) - FGIC Insured | 8/06 at 102 |
| 665 | San Antonio, Texas, Water System Revenue Refunding Bonds, Series 1992, 6.500%, 5/15/10 - MBIA Insured | No Opt. C |
| 2,000 | University of Houston, Texas, Consolidated Revenue Bonds, Series 1995, 6.000%, 2/15/17 (Pre-refunded to 2/15/05) - FGIC Insured | 2/05 at 100 |

UTILITIES - 9.8%

| | | |
|-------|--|-------------|
| 2,560 | Brazos River Authority, Texas, Pollution Control Revenue Refunding Bonds, TXU Electric Company Project, Series 1999C, 7.700%, 3/01/32 (Alternative Minimum Tax) | 4/13 at 101 |
| 2,500 | Brazos River Authority, Texas, Revenue Bonds, Reliant Energy Inc., Series 1999A, 5.375%, 4/01/19 | 4/09 at 101 |

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| | | |
|-------|---|-------------|
| 2,000 | Harris County Health Facilities Development Corporation, Texas, Thermal Utility Revenue Bonds, TECO Project, Series 2000, 5.750%, 2/15/15 (Alternative Minimum Tax) - AMBAC Insured | 2/10 at 100 |
| 1,500 | Matagorda County Navigation District 1, Texas, Pollution Control Revenue Refunding Bonds, Central Power and Light Company Project, Series 1993, 6.000%, 7/01/28 - MBIA Insured | 1/05 at 101 |
| 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 |
| 2,000 | Sabine River Authority, Texas, Pollution Control Revenue Refunding Bonds, TXU Electric Company, Series 2001A, 5.500%, 5/01/22 (Mandatory put 11/01/11) | No Opt. C |
| 1,750 | San Antonio, Texas, Electric and Gas System Revenue Refunding Bonds, Series 2002, 5.375%, 2/01/20 | 2/12 at 100 |

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Nuveen Texas Quality Income Municipal Fund (NTX) (continued)
Portfolio of INVESTMENTS July 31, 2004

| PRINCIPAL AMOUNT (000) | DESCRIPTION(1) | OPTIONAL C PROVISIO |
|---------------------------|--|------------------------|
| ----- | | |
| | WATER AND SEWER - 8.5% | |
| \$ 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, Water and Sewer System Junior Lien Revenue Refunding Bonds, Series 2001A, 5.500%, 12/01/17 - FSA Insured | 12/11 at 100 |
| | Irving, Texas, Subordinate Lien Waterworks and Sewerage Revenue Bonds, Series 2004: | |
| 1,680 | 5.000%, 8/15/22 - AMBAC Insured | 8/14 at 100 |
| 1,760 | 5.000%, 8/15/23 - AMBAC Insured | 8/14 at 100 |
| 1,500 | Texas Water Development Board, Senior Lien State Revolving Fund Revenue Bonds, Series 1999A, 5.500%, 7/15/21 | 7/09 at 100 |
| ----- | | |
| \$ 206,338 | Total Long-Term Investments (cost \$196,601,806) - 144.2% | |
| ===== | | |
| | Other Assets Less Liabilities - 4.0% | |
| ----- | | |
| | Preferred Shares, at Liquidation Value - (48.2)% | |
| ----- | | |
| | Net Assets Applicable to Common Shares - 100% | |
| ===== | | |

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- (1) All percentages shown in the Portfolio of Investments are based on net assets applicable to Common shares.
- * 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.
- ** Ratings (not covered by the report of independent registered public accounting firm): Using the higher of Standard & Poor's or Moody's rating.
- *** Securities are backed by an escrow or trust containing sufficient U.S. Government or U.S. Government agency securities which ensures the timely payment of principal and interest. Such securities are normally considered to be equivalent to AAA rated securities.
- N/R Investment is not rated.

See accompanying notes to financial statements.

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Statement of
ASSETS AND LIABILITIES July 31, 2004

| | ARIZONA PREMIUM INCOME (NAZ) | ARIZONA DIVIDEND ADVANTAGE (NFZ) | ARIZONA DIVIDEND ADVANTAGE 2 (NKR) |
|--|---------------------------------------|---|---|
| <hr/> | | | |
| ASSETS | | | |
| Investments, at market value (cost \$88,409,356, \$33,517,076, \$52,483,361, \$64,073,701 and \$196,601,806, respectively) | \$91,581,198 | \$34,509,515 | \$54,304,981 |
| Cash | 187,194 | 379,554 | 336,310 |
| Receivables: | | | |
| Interest | 752,627 | 279,024 | 424,720 |
| Investments sold | 5,051 | -- | -- |
| Other assets | 9,092 | 5,789 | 7,221 |
| <hr/> | | | |
| Total assets | 92,535,162 | 35,173,882 | 55,073,232 |
| <hr/> | | | |
| LIABILITIES | | | |
| Accrued expenses: | | | |
| Management fees | 50,795 | 10,405 | 16,304 |
| Other | 51,914 | 9,912 | 13,053 |
| Preferred share dividends payable | 987 | 790 | 913 |
| <hr/> | | | |
| Total liabilities | 103,696 | 21,107 | 30,270 |
| <hr/> | | | |
| Preferred shares, at liquidation value | 30,000,000 | 12,000,000 | 18,500,000 |
| <hr/> | | | |
| Net assets applicable to Common shares | \$62,431,466 | \$23,152,775 | \$36,542,962 |
| <hr/> | | | |
| Common shares outstanding | 4,447,830 | 1,543,759 | 2,419,878 |

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| | | | |
|---|--------------|--------------|--------------|
| Net asset value per Common share outstanding (net assets applicable to Common shares, divided by Common shares outstanding) | \$ 14.04 | \$ 15.00 | \$ 15.10 |
| NET ASSETS APPLICABLE TO COMMON SHARES CONSIST OF: | | | |
| Common shares, \$.01 par value per share | \$ 44,478 | \$ 15,438 | \$ 24,199 |
| Paid-in surplus | 61,829,774 | 21,828,494 | 34,271,339 |
| Undistributed net investment income | 377,650 | 245,182 | 117,979 |
| Accumulated net realized gain (loss) from investments | (2,992,278) | 71,222 | 307,825 |
| Net unrealized appreciation (depreciation) of investments | 3,171,842 | 992,439 | 1,821,620 |
| Net assets applicable to Common shares | \$62,431,466 | \$23,152,775 | \$36,542,962 |
| Authorized shares: | | | |
| Common | 200,000,000 | Unlimited | Unlimited |
| Preferred | 1,000,000 | Unlimited | Unlimited |

See accompanying notes to financial statements.

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Statement of
OPERATIONS Year Ended July 31, 2004

| | ARIZONA PREMIUM INCOME (NAZ) | ARIZONA DIVIDEND ADVANTAGE (NFZ) | ARIZONA DIVIDEND ADVANTAGE 2 (NKR) |
|--|---------------------------------------|---|---|
| INVESTMENT INCOME | \$4,838,928 | \$1,723,218 | \$2,616,482 |
| EXPENSES | | | |
| Management fees | 602,609 | 229,298 | 359,709 |
| Preferred shares - auction fees | 75,242 | 30,101 | 46,507 |
| Preferred shares - dividend disbursing agent fees | 10,028 | 10,028 | 10,028 |
| Shareholders' servicing agent fees and expenses | 5,052 | 275 | 297 |
| Custodian's fees and expenses | 24,959 | 7,334 | 13,513 |
| Directors'/Trustees' fees and expenses | 2,269 | 912 | 1,280 |
| Professional fees | 11,613 | 9,768 | 10,150 |
| Shareholders' reports - printing and mailing expenses | 10,603 | 3,360 | 10,774 |
| Stock exchange listing fees | 11,067 | 136 | 212 |
| Investor relations expense | 4,556 | 1,590 | 3,287 |
| Other expenses | 10,195 | 9,741 | 11,124 |
| Total expenses before custodian fee credit and expense reimbursement | 768,193 | 302,543 | 466,881 |
| Custodian fee credit | (8,180) | (3,989) | (4,797) |
| Expense reimbursement | -- | (105,830) | (166,019) |

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| | | | |
|---|-------------|-------------|-------------|
| Net expenses | 760,013 | 192,724 | 296,065 |
| Net investment income | 4,078,915 | 1,530,494 | 2,320,417 |
| REALIZED AND UNREALIZED GAIN (LOSS) FROM INVESTMENTS | | | |
| Net realized gain (loss) from investments | 713,547 | 108,890 | 307,836 |
| Change in net unrealized appreciation (depreciation) of investments | 1,137,949 | 760,107 | 1,008,021 |
| Net gain from investments | 1,851,496 | 868,997 | 1,315,857 |
| DISTRIBUTIONS TO PREFERRED SHAREHOLDERS | | | |
| From net investment income | (230,103) | (85,893) | (146,950) |
| From accumulated net realized gains from investments | -- | (4,168) | (9,227) |
| Decrease in net assets applicable to Common shares from distributions to Preferred shareholders | (230,103) | (90,061) | (156,177) |
| Net increase in net assets applicable to Common shares from operations | \$5,700,308 | \$2,309,430 | \$3,480,097 |

See accompanying notes to financial statements.

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Statement of
CHANGES IN NET ASSETS

| | ARIZONA PREMIUM INCOME (NAZ) | | ARIZONA DIVIDEND ADVANTAGE (NFZ) | |
|---|---------------------------------|-----------------------|-------------------------------------|-----------------------|
| | YEAR ENDED 7/31/04 | YEAR ENDED 7/31/03 | YEAR ENDED 7/31/04 | YEAR ENDED 7/31/03 |
| OPERATIONS | | | | |
| Net investment income | \$4,078,915 | \$ 4,313,339 | 1,530,494 | \$ 1,536,065 |
| Net realized gain (loss) from investments | 713,547 | (3,250,460) | 108,890 | 43,536 |
| Change in net unrealized appreciation (depreciation) of investments | 1,137,949 | 649,626 | 760,107 | (623,997) |
| Distributions to Preferred Shareholders: | | | | |
| From net investment income | (230,103) | (295,481) | (85,893) | (100,611) |
| From accumulated net realized gains from investments | -- | -- | (4,168) | (8,311) |
| Net increase (decrease) in net assets applicable to Common shares from operations | 5,700,308 | 1,417,024 | 2,309,430 | 846,666 |
| DISTRIBUTIONS TO COMMON SHAREHOLDERS | | | | |
| From net investment income | (4,076,294) | (4,059,731) | (1,410,436) | (1,357,097) |
| From accumulated net realized gains | | | | |

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| | | | | |
|---|--------------|--------------|--------------|-------------|
| from investments | -- | -- | (64,486) | (65,54) |
| ----- | | | | |
| Decrease in net assets applicable to Common shares from distributions to Common shareholders | (4,076,294) | (4,059,731) | (1,474,922) | (1,422,64) |
| ----- | | | | |
| CAPITAL SHARE TRANSACTIONS | | | | |
| Common shares: | | | | |
| Net proceeds from sale of shares | -- | -- | -- | -- |
| Net proceeds from shares issued to shareholders due to reinvestment of distributions | 260,642 | 313,593 | 27,858 | 45,77 |
| Preferred shares offering costs | -- | -- | -- | 29,97 |
| ----- | | | | |
| Net increase (decrease) in net assets applicable to Common shares from capital share transactions | 260,642 | 313,593 | 27,858 | 75,75 |
| ----- | | | | |
| Net increase (decrease) in net assets applicable to Common shares | 1,884,656 | (2,329,114) | 862,366 | (500,22) |
| Net assets applicable to Common shares at the beginning of period | 60,546,810 | 62,875,924 | 22,290,409 | 22,790,63 |
| ----- | | | | |
| Net assets applicable to Common shares at the end of period | \$62,431,466 | \$60,546,810 | \$23,152,775 | \$22,290,40 |
| ===== | | | | |
| Undistributed (Over-distribution of) net investment income at the end of period | \$ 377,650 | \$ 612,114 | \$ 245,182 | \$ 211,01 |
| ===== | | | | |

See accompanying notes to financial statements.

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Statement of
CHANGES IN NET ASSETS (continued)

| | ARIZONA DIVIDEND ADVANTAGE 3 (NX) | |
|--|---|-------------------------------|
| | FOR T PERIOD 9/25/ (COMMENCEME YEAR ENDED 7/31/04 | OF OPERATION THROUGH 7/31/ |
| ----- | | |
| OPERATIONS | | |
| Net investment income | \$ 2,721,867 | \$ 2,008,21 |
| Net realized gain (loss) from investments | (276,088) | (72,29 |
| Change in net unrealized appreciation (depreciation) of investments | 1,955,972 | (1,959,49 |
| Distributions to Preferred Shareholders: | | |
| From net investment income | (185,513) | (166,96 |
| From accumulated net realized gains | | |

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| | | |
|---|--------------|--------------|
| from investments | -- | -- |
| ----- | | |
| Net increase (decrease) in net assets applicable to Common shares from operations | 4,216,238 | (190,530) |
| ----- | | |
| DISTRIBUTIONS TO COMMON SHAREHOLDERS | | |
| From net investment income | (2,465,996) | (1,849,400) |
| From accumulated net realized gains from investments | -- | -- |
| ----- | | |
| Decrease in net assets applicable to Common shares from distributions to Common shareholders | (2,465,996) | (1,849,400) |
| ----- | | |
| CAPITAL SHARE TRANSACTIONS | | |
| Common shares: | | |
| Net proceeds from sale of shares | -- | 43,742,700 |
| Net proceeds from shares issued to shareholders due to reinvestment of distributions | 3,508 | -- |
| Preferred shares offering costs | (18,271) | (556,000) |
| ----- | | |
| Net increase (decrease) in net assets applicable to Common shares from capital share transactions | (14,763) | 43,186,699 |
| ----- | | |
| Net increase (decrease) in net assets applicable to Common shares | 1,735,479 | 41,146,766 |
| Net assets applicable to Common shares at the beginning of period | 41,247,042 | 100,270,000 |
| ----- | | |
| Net assets applicable to Common shares at the end of period | \$42,982,521 | \$41,247,042 |
| ===== | | |
| Undistributed (Over-distribution of) net investment income at the end of period | \$ 61,700 | \$ (8,650) |
| ===== | | |

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

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(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.

Prior to the commencement of operations of Arizona Dividend Advantage 3 (NXE), the Fund had no operations other than those related to organizational matters, the initial capital contribution of \$100,275 by Nuveen Advisory Corp. (the "Adviser"), a wholly owned subsidiary of Nuveen Investments, Inc., and the recording of the organization expenses (\$11,500) and its reimbursement by Nuveen Investments, LLC, also a wholly owned subsidiary of Nuveen Investments, Inc.

Each Fund seeks to provide current income exempt from both regular federal and designated state income taxes, where applicable, by investing primarily in a diversified portfolio of municipal obligations issued by state and local government authorities within a single state.

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.

Securities Valuation

The prices of municipal bonds in each Fund's investment portfolio are provided by a pricing service approved by the Funds' Board of Directors/Trustees. When price quotes are not readily available (which is usually the case for municipal securities), the pricing service establishes fair market 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. If it is determined that market prices for a security are unavailable or inappropriate, the Board of Directors/Trustees of the Funds, or its designee, may establish a fair value for the security. Temporary investments in securities that have variable rate and demand features qualifying them as short-term securities are valued at amortized cost, which approximates market value.

Securities Transactions

Securities transactions are recorded on a trade date basis. Realized gains and losses from such transactions are determined on the specific identification method. Securities purchased or sold on a when-issued or delayed delivery basis may have extended settlement periods. The securities 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 and delayed delivery purchase commitments. At July 31, 2004, there were no such outstanding purchase commitments in any of the Funds.

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Notes to
FINANCIAL STATEMENTS (continued)

Investment Income

Interest income, which includes the amortization of premiums and accretion of discounts for financial reporting purposes, is recorded on an accrual basis.

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Income Taxes

Each Fund is a separate taxpayer for federal income tax purposes. Each Fund intends to distribute all income and 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, where applicable, 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, 2004, have been designated Exempt Interest Dividends. Net realized capital gains and ordinary income distributions made 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 \$25,000 stated value Preferred shares as a means of effecting financial leverage. Each Fund's Preferred shares are issued in one or more Series. The dividend rate on each Series may change every seven days, as set pursuant to a dutch auction process by the auction agent, and is payable at or near 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 |
| ===== | | | | |

Arizona Dividend Advantage 3 (NXE) issued the Preferred shares listed above on November 15, 2002.

Custodian Fee Credit

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, its 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.

Offering Costs

Nuveen Investments, LLC has agreed to pay all common share offering costs (other than the sales load) that exceed \$.03 per Common share for Arizona Dividend Advantage 2 (NKR) and Arizona Dividend Advantage 3 (NXE). Arizona Dividend Advantage 2's (NKR) and Arizona Dividend Advantage 3's (NXE) share of common share offering costs (\$72,150 and \$91,800, respectively) were recorded as a reduction of the proceeds from the sale of common shares.

Costs incurred by Arizona Dividend Advantage 2 (NKR) and Arizona Dividend Advantage 3 (NXE) in connection with their offering of Preferred shares (\$305,577 and \$574,272, respectively) were recorded as a reduction to paid-in surplus.

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 and Preferred shares were as follows:

| | ARIZONA PREMIUM INCOME (NAZ) | | ARIZONA DIVIDEND ADVANTAGE (NFZ) | | ARIZONA DIVI ADVANTAGE 2 |
|---|---------------------------------|-----------------------|-------------------------------------|-----------------------|-----------------------------|
| | YEAR ENDED 7/31/04 | YEAR ENDED 7/31/03 | YEAR ENDED 7/31/04 | YEAR ENDED 7/31/03 | YEAR ENDED 7/31/04 |
| Common shares: | | | | | |
| Shares sold | -- | -- | -- | -- | -- |
| Shares issued to shareholders due to reinvestment of distributions | 16,782 | 19,523 | 1,617 | 2,947 | 1,607 |

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| | | | | | |
|-----------------------|--------|--------|-------|-------|-------|
| | 16,782 | 19,523 | 1,617 | 2,947 | 1,607 |
| Preferred shares sold | -- | -- | -- | -- | -- |

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Notes to
FINANCIAL STATEMENTS (continued)

| | ARIZONA DIVIDEND ADVANTAGE 3 (NXE) | | TEXAS QUALI INCOME (NT | |
|--|---|--------------------|---------------------------|----|
| | FOR THE PERIOD 9/25/02 (COMMENCE- MENT OF OPERATIONS) | | | |
| | YEAR ENDED 7/31/04 | THROUGH 7/31/03 | YEAR ENDED 7/31/04 | YE |
| Common shares: | | | | |
| Shares sold | -- | 3,060,000 | -- | |
| Shares issued to shareholders due to reinvestment of distributions | 243 | -- | 7,303 | |
| | 243 | 3,060,000 | 7,303 | |
| Preferred shares sold | -- | 880 | -- | |

3. SECURITIES TRANSACTIONS

Purchases and sales (including maturities) of investments in long-term municipal securities for the fiscal year ended July 31, 2004, were as follows:

| | ARIZONA PREMIUM INCOME (NAZ) | ARIZONA DIVIDEND ADVANTAGE (NFZ) | ARIZONA DIVIDEND ADVANTAGE 2 (NKR) | ARIZONA DIVIDEND ADVANTAGE 3 (NXE) | |
|----------------------|---------------------------------------|---|---|---|-----|
| Purchases | \$30,330,083 | \$8,910,317 | \$8,726,226 | \$14,839,263 | \$3 |
| Sales and maturities | 23,284,747 | 8,336,214 | 7,624,928 | 14,002,182 | 3 |

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

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

At July 31, 2004, the cost of investments were as follows:

| | ARIZONA PREMIUM INCOME (NAZ) | ARIZONA DIVIDEND ADVANTAGE (NFZ) | ARIZONA DIVIDEND ADVANTAGE 2 (NKR) | ARIZONA DIVIDEND ADVANTAGE 3 (NXE) | |
|---------------------|---------------------------------------|---|---|---|------|
| Cost of investments | \$88,394,997 | \$33,513,172 | \$52,482,737 | \$64,072,810 | \$19 |

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Gross unrealized appreciation and gross unrealized depreciation of investments at July 31, 2004, were as follows:

| | ARIZONA PREMIUM INCOME (NAZ) | ARIZONA DIVIDEND ADVANTAGE (NFZ) | ARIZONA DIVIDEND ADVANTAGE 2 (NKR) | ARIZONA DIVIDEND ADVANTAGE 3 (NXE) | |
|--|---------------------------------------|---|---|---|--|
| Gross unrealized: | | | | | |
| Appreciation | \$3,859,132 | \$1,048,816 | \$2,060,113 | \$ 545,612 | |
| Depreciation | (672,931) | (52,473) | (237,869) | (548,247) | |
| Net unrealized appreciation (depreciation) of investments | \$3,186,201 | \$ 996,343 | \$1,822,244 | \$ (2,635) | |

The tax components of undistributed net investment income and net realized gains at July 31, 2004, 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 | \$704,535 | \$360,168 | \$292,499 | \$266,693 | \$ |
| Undistributed net ordinary income * | -- | -- | -- | 1,432 | |
| Undistributed net long-term capital gains | -- | 71,222 | 307,825 | -- | |

* 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 fiscal years ended July 31, 2004 and July 31, 2003, was designated for purposes of the dividends paid

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deduction as follows:

| | ARIZONA PREMIUM INCOME (NAZ) | ARIZONA DIVIDEND ADVANTAGE (NFZ) | ARIZONA DIVIDEND ADVANTAGE 2 (NKR) | ARIZONA DIVIDEND ADVANTAGE 3 (NXE) |
|--|---------------------------------------|---|---|---|
| 2004 | | | | |
| Distributions from net tax-exempt income | \$4,307,222 | \$1,494,232 | \$2,236,394 | \$2,650,674 |
| Distributions from net ordinary income * | -- | 68,654 | 110,761 | -- |
| Distributions from net long-term capital gains | -- | -- | 5,257 | -- |

| | ARIZONA PREMIUM INCOME (NAZ) | ARIZONA DIVIDEND ADVANTAGE (NFZ) | ARIZONA DIVIDEND ADVANTAGE 2 (NKR) | ARIZONA DIVIDEND ADVANTAGE 3 (NXE) |
|--|---------------------------------------|---|---|---|
| 2003 | | | | |
| Distributions from net tax-exempt income | \$4,355,548 | \$1,446,815 | \$2,277,296 | \$1,809,880 |
| Distributions from net ordinary income * | -- | 2,222 | 33,393 | -- |
| Distributions from net long-term capital gains | -- | 73,795 | -- | -- |

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

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Notes to
FINANCIAL STATEMENTS (continued)

At July 31, 2004, 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: | | |
| 2010 | \$ 2,164 | \$ -- |
| 2011 | 1,436,486 | -- |
| 2012 | 1,553,628 | 205,820 |
| Total | \$2,992,278 | \$205,820 |

Arizona Dividend Advantage 3 (NXE) elected to defer \$142,044 of net realized losses from investments incurred from November 1, 2003 through July 31, 2004

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("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.

5. MANAGEMENT FEE AND OTHER TRANSACTIONS WITH AFFILIATES

Under the Funds' investment management agreements with the Adviser, each Fund paid through July 31, 2004, an annual management fee, payable monthly, at the rates set forth below, which were 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 INCO |
| (INCLUDING NET ASSETS ATTRIBUTABLE TO PREFERRED SHARES) | TEXAS QUALITY INCO |
| MANAGEMENT | |
| ----- | |
| For the first \$125 million | |
| For the next \$125 million | |
| For the next \$250 million | |
| For the next \$500 million | |
| For the next \$1 billion | |
| For the next \$3 billion | |
| For net assets over \$5 billion | |
| ===== | |

| | |
|--|----------------------------|
| AVERAGE DAILY NET ASSETS | ARIZONA DIVIDEND ADVANTA |
| (INCLUDING NET ASSETS ATTRIBUTABLE TOPREFERRED SHARES) | ARIZONA DIVIDEND ADVANTAGE |
| ARIZONA DIVIDEND ADVANTAGE | |
| MANAGEMENT | |
| ----- | |
| For the first \$125 million | |
| For the next \$125 million | |
| For the next \$250 million | |
| For the next \$500 million | |
| For the next \$1 billion | |
| For net assets over \$2 billion | |
| ===== | |

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 their 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.

As approved by the Board of Directors/Trustees, a complex-wide management fee structure has been adopted by all funds sponsored by the Adviser and its

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affiliates effective August 1, 2004. This structure separates each fund's management fee into two components - a complex-level component, based on the aggregate amount of all fund assets managed by the Adviser and its affiliates, and a specific fund-level component, based only on the amount of assets managed 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 and its affiliates. Under no circumstances will this pricing structure result in a fund paying management fees at a rate higher than would otherwise have been applicable had the complex-wide management fee structure not been implemented. As a consequence of this new management fee structure, the funds' effective management fees were reduced by approximately .004% starting August 1, 2004.

The complex-level fee schedule for all funds in the Nuveen fund complex is as follows:

| 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 (which includes assets attributable to leverage used in the Nuveen fund complex) of all funds sponsored by the Adviser or by its affiliates.
- (2) With respect to the complex-wide Managed Assets over \$91 billion, the funds (via their Board of Directors/Trustees) and the Adviser intend that the parties will meet, prior to the time when complex-wide Managed Assets reach that level, to consider and negotiate the fee rate or rates that will apply to such assets. The parties agree that, in the unlikely event that complex-wide Managed Assets reach \$91 billion prior to the parties reaching an agreement as to 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 the parties agree to a different rate or rates.

Notes to
FINANCIAL STATEMENTS (continued)

For each of the Funds, the fund-level fee, which is additive to the complex-level fee, is based upon the average daily Managed Assets of each Fund as follows:

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| AVERAGE DAILY MANAGED ASSETS | ARIZONA PREMIUM INCOME (NAZ) |
|-------------------------------------|------------------------------|
| | TEXAS QUALITY INCOME (NTX) |
| | FUND-LEVEL FEE RATE |
| For the first \$125 million | .4500% |
| For the next \$125 million | .4375 |
| For the next \$250 million | .4250 |
| For the next \$500 million | .4125 |
| For the next \$1 billion | .4000 |
| For the next \$3 billion | .3875 |
| For Managed Assets over \$5 billion | .3750 |

| AVERAGE DAILY MANAGED ASSETS | 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 Managed Assets over \$2 billion | .3750 |

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 |

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| | | | |
|------|-----|------|-----|
| 2004 | .30 | 2010 | .15 |
| 2005 | .30 | 2011 | .10 |
| 2006 | .30 | 2012 | .05 |
| 2007 | .30 | | |

* From the commencement of operations.

The Adviser has not agreed to reimburse Arizona Dividend Advantage 2 (NKR) for any portion of its fees and expenses beyond March 31, 2012.

For the first eight years of Arizona Dividend Advantage 3's (NXE) operations, the Adviser has agreed to reimburse the Fund, as a percentage of average daily net assets (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.

6. 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, 2004, to shareholders of record on August 15, 2004, as follows:

| | ARIZONA PREMIUM INCOME (NAZ) | ARIZONA DIVIDEND ADVANTAGE (NFZ) | ARIZONA DIVIDEND ADVANTAGE 2 (NKR) | ARIZONA DIVIDEND ADVANTAGE 3 (NXE) | TE QUAL INC (N |
|--------------------|---------------------------------------|---|---|---|-------------------------|
| Dividend per share | \$.0765 | \$.0765 | \$.0720 | \$.0670 | \$.0 |

Notes to
FINANCIAL STATEMENTS (continued)

Swap Transactions

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The following Funds entered into forward interest rate swap transactions with the intent to mitigate the negative impact that an increase in long-term interest rates could have on Common share net earnings. The Funds entered into forward interest rate swap transactions on the dates and in the notional amounts as follows:

| TRADE DATE | ARIZONA DIVIDEND ADVANTAGE (NFZ) | | ARIZONA DIVIDEND ADVANTAGE 2 (NKR) | | |
|-----------------|-------------------------------------|----------------|---------------------------------------|----------------|----------------|
| | AUGUST 4, 2004 | AUGUST 5, 2004 | AUGUST 4, 2004 | AUGUST 5, 2004 | AUGUST 5, 2004 |
| NOTIONAL AMOUNT | \$600,000 | \$700,000 | \$1,100,000 | \$1,300,000 | \$3,000,000 |

| TRADE DATE | ARIZONA DIVIDEND ADVANTAGE 3 (NXE) | | |
|-----------------|---------------------------------------|----------------|-----------------|
| | AUGUST 4, 2004 | AUGUST 5, 2004 | AUGUST 10, 2004 |
| NOTIONAL AMOUNT | \$2,000,000 | \$2,400,000 | \$500,000 |

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Financial HIGHLIGHTS

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Financial HIGHLIGHTS

Selected data for a Common share outstanding throughout each period:

| | Investment Operations | | | | | |
|------------------------------|--|-----------------------|--|--|--|------|
| | Beginning Common Share Net Asset Value | Net Investment Income | Net Realized/Unrealized Investment Gain (Loss) | Distributions from Net Investment Income to Preferred Share-holders+ | Distributions from Capital Gains to Preferred Share-holders+ | Tot |
| ARIZONA PREMIUM INCOME (NAZ) | | | | | | |
| Year Ended 7/31: 2004 | \$13.66 | \$.92 | \$.43 | \$ (.05) | \$ -- | \$1. |

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| | | | | | | |
|------|-------|------|-------|-------|-------|----|
| 2003 | 14.25 | .97 | (.57) | (.07) | -- | . |
| 2002 | 14.77 | 1.07 | (.57) | (.09) | (.01) | . |
| 2001 | 14.25 | 1.09 | .50 | (.23) | -- | 1. |
| 2000 | 14.90 | 1.06 | (.61) | (.25) | -- | . |

ARIZONA DIVIDEND
ADVANTAGE (NFZ)

| | | | | | | |
|------------------|-------|------|-------|-------|-------|----|
| Year Ended 7/31: | | | | | | |
| 2004 | 14.45 | .99 | .57 | (.06) | -- | 1. |
| 2003 | 14.81 | 1.00 | (.38) | (.07) | (.01) | . |
| 2002 | 14.37 | 1.04 | .36 | (.11) | -- | 1. |
| 2001 (a) | 14.33 | .44 | .23 | (.08) | -- | . |

ARIZONA DIVIDEND
ADVANTAGE 2 (NKR)

| | | | | | | |
|------------------|-------|-----|-------|-------|----|----|
| Year Ended 7/31: | | | | | | |
| 2004 | 14.57 | .96 | .53 | (.06) | -- | 1. |
| 2003 | 14.88 | .96 | (.31) | (.08) | -- | . |
| 2002 (b) | 14.33 | .24 | .71 | (.02) | -- | . |

ARIZONA DIVIDEND
ADVANTAGE 3 (NXE)

| | | | | | | |
|------------------|-------|-----|-------|-------|----|----|
| Year Ended 7/31: | | | | | | |
| 2004 | 13.45 | .89 | .54 | (.06) | -- | 1. |
| 2003 (c) | 14.33 | .66 | (.67) | (.05) | -- | (. |

TEXAS QUALITY
INCOME (NTX)

| | | | | | | |
|------------------|-------|------|-------|-------|-------|----|
| Year Ended 7/31: | | | | | | |
| 2004 | 14.57 | 1.03 | .55 | (.07) | -- | 1. |
| 2003 | 15.14 | 1.05 | (.58) | (.08) | -- | . |
| 2002 | 15.16 | 1.11 | (.02) | (.10) | (.02) | . |
| 2001 | 14.26 | 1.16 | .88 | (.27) | -- | 1. |
| 2000 | 15.13 | 1.16 | (.74) | (.27) | (.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: | | | | | |
| 2004 | \$ -- | \$14.04 | \$15.2700 | 7.97% | 9.66% |
| 2003 | -- | 13.66 | 15.0000 | (5.98) | 2.21 |
| 2002 | -- | 14.25 | 16.9000 | 9.63 | 2.88 |
| 2001 | -- | 14.77 | 16.3200 | 17.77 | 9.74 |
| 2000 | -- | 14.25 | 14.6250 | (8.80) | 1.61 |

ARIZONA DIVIDEND

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ADVANTAGE (NFZ)

Year Ended 7/31:

| | | | | | |
|----------|-------|-------|---------|------|-------|
| 2004 | -- | 15.00 | 15.4000 | 7.05 | 10.56 |
| 2003 | .02 | 14.45 | 15.3000 | 3.06 | 3.67 |
| 2002 | -- | 14.81 | 15.7500 | 6.38 | 9.32 |
| 2001 (a) | (.20) | 14.37 | 15.6500 | 6.76 | 2.81 |

ARIZONA DIVIDEND
ADVANTAGE 2 (NKR)

Year Ended 7/31:

| | | | | | |
|----------|-------|-------|---------|--------|------|
| 2004 | -- | 15.10 | 14.8200 | 9.46 | 9.98 |
| 2003 | (.01) | 14.57 | 14.4000 | (3.53) | 3.67 |
| 2002 (b) | (.16) | 14.88 | 15.8000 | 6.81 | 5.38 |

ARIZONA DIVIDEND
ADVANTAGE 3 (NXE)

Year Ended 7/31:

| | | | | | |
|----------|-------|-------|---------|--------|--------|
| 2004 | (.01) | 14.01 | 13.3000 | 1.01 | 10.25 |
| 2003 (c) | (.21) | 13.45 | 13.9700 | (2.76) | (2.05) |

TEXAS QUALITY
INCOME (NTX)

Year Ended 7/31:

| | | | | | |
|------|----|-------|---------|--------|-------|
| 2004 | -- | 15.12 | 14.5900 | 5.87 | 10.51 |
| 2003 | -- | 14.57 | 14.7100 | 4.14 | 2.54 |
| 2002 | -- | 15.14 | 15.0700 | 9.29 | 6.61 |
| 2001 | -- | 15.16 | 14.7300 | 21.16 | 12.74 |
| 2000 | -- | 14.26 | 12.9375 | (7.93) | 1.15 |

Ratios/Supplemental Data

| | Before Credit/Reimbursement | | After Credit/Reimb | | Rat |
|--|---|--|---|--|-----|
| | Ratio of Expenses to Average Net Assets Applicable to Common Shares (000) | Ratio of Net Investment Income to Average Net Assets Applicable to Common Shares++ | Ratio of Expenses to Average Net Assets Applicable to Common Shares++ | Ratio of Net Investment Income to Average Net Assets Applicable to Common Shares++ | |

ARIZONA PREMIUM
INCOME (NAZ)

Year Ended 7/31:

| | | | | |
|------|-----------|-------|-------|-------|
| 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 |
| 2001 | 64,859 | 1.28 | 7.47 | 1.27 |
| 2000 | 62,287 | 1.26 | 7.58 | 1.25 |

ARIZONA DIVIDEND
ADVANTAGE (NFZ)

Year Ended 7/31:

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| | | | | |
|----------|--------|-------|-------|------|
| 2004 | 23,153 | 1.30 | 6.10 | .83 |
| 2003 | 22,290 | 1.35 | 6.11 | .91 |
| 2002 | 22,791 | 1.41 | 6.72 | .93 |
| 2001 (a) | 22,072 | 1.43* | 5.80* | .95* |

ARIZONA DIVIDEND
ADVANTAGE 2 (NKR)

| | | | | |
|------------------|--------|-------|-------|------|
| Year Ended 7/31: | | | | |
| 2004 | 36,543 | 1.27 | 5.83 | .80 |
| 2003 | 35,237 | 1.27 | 5.78 | .82 |
| 2002 (b) | 35,913 | 1.19* | 4.43* | .77* |

ARIZONA DIVIDEND
ADVANTAGE 3 (NXE)

| | | | | |
|------------------|--------|-------|-------|------|
| Year Ended 7/31: | | | | |
| 2004 | 42,983 | 1.25 | 5.80 | .76 |
| 2003 (c) | 41,247 | 1.19* | 5.05* | .73* |

TEXAS QUALITY
INCOME (NTX)

| | | | | |
|------------------|---------|------|------|------|
| Year Ended 7/31: | | | | |
| 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 |
| 2001 | 143,127 | 1.21 | 7.87 | 1.19 |
| 2000 | 134,637 | 1.27 | 8.18 | 1.26 |

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: | | | |
| 2004 | \$30,000 | \$25,000 | \$77,026 |
| 2003 | 30,000 | 25,000 | 75,456 |
| 2002 | 30,000 | 25,000 | 77,397 |
| 2001 | 30,000 | 25,000 | 79,049 |
| 2000 | 30,000 | 25,000 | 76,906 |

ARIZONA DIVIDEND
ADVANTAGE (NFZ)

| | | | |
|------------------|--------|--------|--------|
| Year Ended 7/31: | | | |
| 2004 | 12,000 | 25,000 | 73,235 |
| 2003 | 12,000 | 25,000 | 71,438 |

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| | | | |
|----------|--------|--------|--------|
| 2002 | 12,000 | 25,000 | 72,480 |
| 2001 (a) | 12,000 | 25,000 | 70,984 |

ARIZONA DIVIDEND
ADVANTAGE 2 (NKR)

Year Ended 7/31:

| | | | |
|----------|--------|--------|--------|
| 2004 | 18,500 | 25,000 | 74,382 |
| 2003 | 18,500 | 25,000 | 72,618 |
| 2002 (b) | 18,500 | 25,000 | 73,531 |

ARIZONA DIVIDEND
ADVANTAGE 3 (NXE)

Year Ended 7/31:

| | | | |
|----------|--------|--------|--------|
| 2004 | 22,000 | 25,000 | 73,844 |
| 2003 (c) | 22,000 | 25,000 | 71,872 |

TEXAS QUALITY
INCOME (NTX)

Year Ended 7/31:

| | | | |
|------|--------|--------|--------|
| 2004 | 69,000 | 25,000 | 76,896 |
| 2003 | 69,000 | 25,000 | 74,991 |
| 2002 | 69,000 | 25,000 | 76,922 |
| 2001 | 69,000 | 25,000 | 76,858 |
| 2000 | 69,000 | 25,000 | 73,782 |

=====

* Annualized.

** Total Investment Return on Market Value is the combination of reinvested dividend income, reinvested capital gains distributions, if any, and changes in stock price per share. Total Return on Common Share Net Asset Value is the combination of reinvested dividend income at net asset value, reinvested capital gains distributions at net asset value, if any, and changes in Common share net asset value per share. 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 January 30, 2001 (commencement of operations) through July 31, 2001.

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

(c) 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 Funds is currently set at seven. None of the board members who are not "interested" persons of the

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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.

| 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 |
|--------------------------------|---------------------------------------|---|---|
|--------------------------------|---------------------------------------|---|---|

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 Trustee | 1994 | Chairman and Director (since 1996) of N Inc. and Nuveen Investments, LLC; Direc Chairman (since 1996) of Nuveen Advisor Institutional Advisory Corp.; Chairman 1997) of Nuveen Asset Management, Inc.; 1996) of Institutional Capital Corporat Director (since 1999) of Rittenhouse As Chairman of Nuveen Investments Advisers |
|--|---|------|---|

BOARD MEMBERS WHO ARE NOT INTERESTED PERSONS OF THE FUNDS:

| | | | |
|--|--------------|------|---|
| Robert P. Bremner 8/22/40 333 W. Wacker Drive Chicago, IL 60606 | Board member | 1997 | Private Investor and Management Consult |
|--|--------------|------|---|

| | | | |
|--|--------------|------|---|
| Lawrence H. Brown 7/29/34 333 W. Wacker Drive Chicago, IL 60606 | Board member | 1993 | Retired (1989) as Senior Vice President Trust Company; Director, Community Advi Highland Park and Highwood, United Way Shore (since 2002). |
|--|--------------|------|---|

| | | | |
|---|--------------|------|---|
| Jack B. Evans 10/22/48 333 W. Wacker Drive Chicago, IL 60606 | Board member | 1999 | President, The Hall-Perrine Foundation, philanthropic corporation (since 1996); Chairman, United Fire & Casualty Compan Federal Reserve Bank of Chicago; former Chief Operating Officer, SCI Financial regional financial services firm. |
|---|--------------|------|---|

| | | | |
|--|--------------|------|---|
| William C. Hunter 3/16/48 333 W. Wacker Drive Chicago, IL 60606 | Board member | 2004 | Dean and Distinguished Professor of Fin Business at the University of Connectic previously Senior Vice President and Di at the Federal Reserve Bank of Chicago Director, Credit Research Center at Geo Director of Xerox Corporation (since 20 |
|--|--------------|------|---|

| POSITION(S) | YEAR FIRST | PRINCIPAL OCCUPATION(S) |
|-------------|------------|-------------------------|
|-------------|------------|-------------------------|

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| NAME, BIRTHDATE AND ADDRESS | HELD WITH THE FUNDS | ELECTED OR APPOINTED (2) | INCLUDING OTHER DIRECTORSHIPS DURING PAST 5 YEARS |
|--------------------------------|------------------------|-----------------------------|--|
|--------------------------------|------------------------|-----------------------------|--|

BOARD MEMBERS WHO ARE NOT INTERESTED PERSONS OF THE FUNDS (CONTINUED):

| | | | |
|---|--------------|------|---|
| William J. Schneider 9/24/44 333 W. Wacker Drive Chicago, IL 60606 | Board member | 1997 | Senior Partner and Chief Operating Officer of Miller-Valentine Group, Vice President, Miller-Valentine company; Chair, Miami Valley Hospital; Development Coalition; formerly, Member of Advisory Board, National City Bank, Day Business Advisory Council, Cleveland Fed |
|---|--------------|------|---|

| | | | |
|---|--------------|------|--|
| 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 |
|---|--------------|------|--|

| NAME, BIRTHDATE AND ADDRESS | POSITION(S) HELD WITH THE FUNDS | YEAR FIRST ELECTED OR APPOINTED (3) | PRINCIPAL OCCUPATION(S) DURING PAST 5 YEARS |
|--------------------------------|---------------------------------------|---|--|
|--------------------------------|---------------------------------------|---|--|

OFFICERS OF THE FUNDS:

| | | | |
|--|------------------------------------|------|---|
| Gifford R. Zimmerman 9/9/56 333 W. Wacker Drive Chicago, IL 60606 | Chief Administrative Officer | 1988 | Managing Director (since 2002), Assistant General Counsel, formerly, Vice President and Assistant General Counsel of Nuveen Institutional Managing Director (since 2002), General Assistant Secretary, formerly, Vice President of Advisory Corp. and Nuveen Institutional Managing Director (since 2002), Assistant General Counsel, formerly, Vice President (2000), of Nuveen Asset Management, Inc. Secretary of Nuveen Investments, Inc. (Secretary of NWQ Investment Management (since 2002); Vice President and Assistant Nuveen Investments Advisers Inc. (since 2002); Director, Associate General Counsel and of Rittenhouse Asset Management, Inc. (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), previously, Assistant Secretary, Nuveen Investments, LLC. |
|---|--|------|--|

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| NAME, BIRTHDATE AND ADDRESS | POSITION(S) HELD WITH THE FUNDS | YEAR FIRST ELECTED OR APPOINTED (3) | PRINCIPAL OCCUPATION(S) DURING PAST 5 YEARS |
|--------------------------------|---------------------------------------|---|--|
|--------------------------------|---------------------------------------|---|--|

OFFICERS OF THE FUNDS (CONTINUED):

| | | | |
|---|---------------------------------|------|---|
| Peter H. D'Arrigo 11/28/67 333 W. Wacker Drive Chicago, IL 60606 | Vice President and Treasurer | 1999 | Vice President of Nuveen Investments, L prior thereto, Assistant Vice President President and Treasurer of Nuveen Inves 1999); Vice President and Treasurer of and Nuveen Institutional Advisory Corp President and Treasurer of Nuveen Asset (since 2002) and of Nuveen Investments 2002); Assistant Treasurer of NWQ Inves Company, LLC (since 2002); Vice Preside Nuveen Rittenhouse Asset Management, In Chartered Financial Analyst. |
|---|---------------------------------|------|---|

| | | | |
|---|---------------------------------|------|--|
| Jessica R. Droeger 9/24/64 333 W. Wacker Drive Chicago, IL 60606 | Vice President and Secretary | 2000 | Vice President (since 2002) and Assista (since 1998); formerly, Assistant Vice of Nuveen Investments, LLC; Vice Presid and Assistant Secretary (since 1998), f Vice President of Nuveen Advisory Corp. Institutional Advisory Corp. |
|---|---------------------------------|------|--|

| | | | |
|---|----------------|------|--|
| Lorna C. Ferguson 10/24/45 333 W. Wacker Drive Chicago, IL 60606 | Vice President | 1998 | Managing Director (since 2004) formerly Nuveen Investments, LLC; Managing Direc formerly, Vice President (since 1998) o Corp. and Nuveen Institutional Advisory |
|---|----------------|------|--|

| | | | |
|---|----------------|------|---|
| William M. Fitzgerald 3/2/64 333 W. Wacker Drive Chicago, IL 60606 | Vice President | 1995 | Managing Director (since 2002) of Nuvee LLC; Managing Director (since 2001), fo of Nuveen Advisory Corp. and Nuveen Ins Corp. (since 1995); Managing Director o Management, Inc. (since 2001); Vice Pre Investment Advisers Inc. (since 2002); Financial Analyst. |
|---|----------------|------|---|

| | | | |
|---|----------------------------------|------|---|
| 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 and Vice Pre Controller (since 1998) of Nuveen Inves Certified Public Accountant. |
|---|----------------------------------|------|---|

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| NAME, BIRTHDATE AND ADDRESS | POSITION(S) HELD WITH THE FUNDS | YEAR FIRST ELECTED OR APPOINTED (3) | PRINCIPAL OCCUPATION(S) DURING PAST 5 YEARS |
|--------------------------------|---------------------------------------|---|--|
|--------------------------------|---------------------------------------|---|--|

OFFICERS OF THE FUNDS (CONTINUED):

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| | | | |
|---|--|------|--|
| David J. Lamb 3/22/63 333 W. Wacker Drive Chicago, IL 60606 | Vice President | 2000 | Vice President (since 2000) of Nuveen I LLC, previously Assistant Vice Presiden prior thereto, Associate of Nuveen Inve Certified Public Accountant. |
| Tina M. Lazar 8/27/61 333 W. Wacker Drive Chicago, IL 60606 | Vice President | 2002 | Vice President (since 1999), previously President (since 1993) of Nuveen Invest |
| 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; Vic Assistant Secretary of Nuveen Advisory Institutional Advisory Corp.; Assistant Investments, Inc. and (since 1997) Nuve Inc.; Vice President (since 2000), Assi Assistant General Counsel (since 1998) Management, Inc.; Vice President and AS Nuveen Investments Advisers Inc. (since Secretary of NWQ Investment Management (since 2002). |
| Edward F. Neild, IV 7/7/65 333 W. Wacker Drive Chicago, IL 60606 | Vice President | 1996 | Managing Director (since 2002) of Nuvee Managing Director (since 1997), formerl (since 1996) of Nuveen Advisory Corp. a Institutional Advisory Corp.; Managing Asset Management, Inc. (since 1999). Ch Financial Analyst. |

- (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) 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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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 CLOSED-END EXCHANGE-TRADED FUNDS
DIVIDEND REINVESTMENT PLAN

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Your Nuveen Closed-End Exchange-Traded 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

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.

Other Useful
INFORMATION

QUARTERLY PORTFOLIO OF INVESTMENTS AND PROXY VOTING

Each Fund's quarterly portfolio of investments and information regarding how the Funds voted proxies relating to portfolio securities held during the most recent 12-month period ended June 30, 2004, 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.

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 or by writing to the SEC's Public Reference Section at 450 Fifth Street NW, Washington, D.C. 20549.

GLOSSARY OF TERMS USED IN THIS REPORT

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 (including change in NAV and reinvested dividends) that would have been necessary on an annual basis to equal the investment's actual performance 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 a bond or bond fund's sensitivity to changes in interest rates. Generally, the longer a bond 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 generally longer than the duration of the actual portfolio of individual bonds that make up the Fund.

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 NAV is calculated by subtracting the liabilities of 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 DIRECTORS/
TRUSTEES
Robert P. Bremner
Lawrence H. Brown

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Jack B. Evans
William C. Hunter
William J. Schneider
Timothy R. Schwertfeger
Judith M. Stockdale

FUND MANAGER

Nuveen Advisory Corp.
333 West Wacker Drive
Chicago, IL 60606

CUSTODIAN

State Street Bank & Trust
Boston, MA

TRANSFER AGENT AND SHAREHOLDER SERVICES

State Street Bank & Trust
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 fiscal year ended July 31, 2004. Any future repurchases will be reported to shareholders in the next annual or semiannual report.

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Nuveen Investments:
SERVING Investors
For GENERATIONS

Photo of: 2 women looking at a photo album.

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.

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WE OFFER MANY DIFFERENT INVESTING SOLUTIONS FOR OUR CLIENTS' DIFFERENT NEEDS.

Managing \$100 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 tax-free 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 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/ETF

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

Logo: NUVEEN Investments

EAN-A-0704D

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. The registrant has posted such code of ethics on its website at www.nuveen.com/etf.

ITEM 3. AUDIT COMMITTEE FINANCIAL EXPERT.

The registrant's board of directors determined that the registrant had 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 was William E. Bennett, who was "independent" for purposes of Item 3 of Form N-CSR.

Although Mr. Bennett served as the audit committee financial expert during the reporting period, he unexpectedly resigned from the Board effective April 30, 2004. Since that time, the Audit Committee determined that Jack B. Evans, the Chairman of the Audit Committee, qualifies as an audit committee financial expert and recommended to the full Board that he be designated as such. On July

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26, 2004, the full Board voted to so designate Mr. Evans. Accordingly for this reporting period, the registrant did not have a designated "audit committee financial expert" from April 30, 2004 to July 26, 2004. Mr. Evans, who is independent for purposes of Item 3 of Form N-CSR, served as the registrant's audit committee financial expert from July 26, 2004 to the end of the reporting period on July 31, 2004.

Mr. Bennett was formerly Executive Vice President and Chief Credit Officer of First Chicago Corporation and its principal subsidiary, The First National Bank of Chicago. As part of his role as Chief Credit Officer, Mr. Bennett set policy as to accrual of assets/loans; designated performing/non-performing assets; set the level of reserves against the credit portfolio; and determined the carrying value of credit related assets and exposure. Among other things, Mr. Bennett was also responsible for the oversight of the internal analysis function including setting ground rules for the review and preparation of financial analysis and financial statements for use in making credit and risk decisions for clients. Mr. Bennett has significant experience reviewing, analyzing and evaluating financial statements of domestic and international companies in a variety of industries with complex accounting issues.

ITEM 4. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

NUVEEN ARIZONA PREMIUM INCOME MUNICIPAL FUND, INC.

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 entered into on or after May 6, 2003, the Audit Committee approved in advance all audit services and non-audit services that Ernst & Young LLP provided to the Fund, except for those non-audit services that were subject to the pre-approval exception under Rule 2-01 of Regulation S-X (the "pre-approval exception"). The pre-approval exception for services provided directly to the Fund waives the pre-approval requirement for services other than audit, review or attest services if: (A) the aggregate amount of all such services provided constitutes no more than 5% of the total amount of revenues paid by the Fund 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 | AUDIT-RELATED FEES BILLED TO FUND | TAX BILLED |
|--|---------------------------|-----------------------------------|------------|
| July 31, 2004 | \$ 7,482 | \$ 0 | \$ |
| Percentage approved pursuant to pre-approval exception | N/A | 0% | |

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| | | | |
|--|----------|------|----|
| July 31, 2003 | \$ 6,786 | \$ 0 | \$ |
| Percentage approved pursuant to pre-approval exception | N/A | 0% | |

The above "Tax Fees" were billed for professional services for tax advice, tax compliance and tax planning.

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 Advisory Corp. ("NAC" or the "Adviser"), and any entity controlling, controlled by or under common control with NAC ("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.

The table also shows 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 ADVISER AND AFFILIATED FUND SERVICE PROVIDERS |
|--|--|---|
| July 31, 2004 | \$ 0 | \$ 0 |
| Percentage approved pursuant to pre-approval exception | 0% | 0% |
| July 31, 2003 | \$ 0 | \$ 0 |
| Percentage approved pursuant to pre-approval exception | N/A | N/A |

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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. For engagements entered into on or after May 6, 2003, 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 independence.

| FISCAL YEAR ENDED | TOTAL NON-AUDIT FEES BILLED TO FUND | TOTAL NON-AUDIT FEES BILLED TO ADVISER AND AFFILIATED FUND SERVICE PROVIDERS (ENGAGEMENTS RELATED DIRECTLY TO THE OPERATIONS AND FINANCIAL REPORTING OF THE FUND) | TOT BIL AFFI PRO |
|-------------------|--|---|---------------------------|
| July 31, 2004 | \$ 2,879 | \$ 0 | |
| July 31, 2003 | \$ 2,653 | \$ 0 | |

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.

Not applicable at this time.

ITEM 6. SCHEDULE OF INVESTMENTS.

Not applicable at this time.

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

In the rare event that a municipal issuer held by the Fund were to issue a proxy or that the Fund were to receive a proxy issued by a cash management security, the Adviser 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 Fund's Board of Directors or Trustees or its

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representative. In the case of a conflict of interest, the proxy would be submitted to the applicable Fund's Board to determine how the proxy should be voted. A member of the Adviser's legal department would oversee the administration of the voting, and ensure that records were maintained in accordance with Rule 204-2(c)(2) under the Investment Advisers Act of 1940 (17 CFR 275.204-2(c)(2)), reports were filed with the SEC on Form N-PX, and the results were provided to the Board of Directors or Trustees and made available to shareholders as required by applicable rules.

ITEM 8. PURCHASES OF EQUITY SECURITIES BY CLOSED-END MANAGEMENT INVESTMENT COMPANY AND AFFILIATED PURCHASERS.

Not applicable to this registrant.

ITEM 9. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

In the event of a vacancy on the Board, the nominating and governance committee receives suggestions from various sources, including shareholders, as to suitable candidates. Suggestions should be sent in writing to Lorna Ferguson, Vice President for Board Relations, Nuveen Investments, 333 West Wacker Drive, Chicago, IL 60606. The nominating and governance committee sets appropriate standards and requirements for nominations for new directors and reserves the right to interview all candidates and to make the final selection of any new directors.

ITEM 10. CONTROLS AND PROCEDURES.

- (a) The registrant's principal executive and principal financial officers, or persons performing similar functions, have concluded that the registrant's disclosure controls and procedures (as defined in Rule 30a-3(c) under the Investment Company Act of 1940, as amended (the "1940 Act") (17 CFR 270.30a-3(c))) are effective, as of a date within 90 days of the filing date of this report that includes the disclosure required by this paragraph, based on their evaluation of the controls and procedures required by Rule 30a-3(b) under the 1940 Act (17 CFR 270.30a-3(b)) and Rules 13a-15(b) or 15d-15(b) under the Securities Exchange Act of 1934, as amended (the "Exchange Act") (17 CFR 240.13a-15(b) or 240.15d-15(b)).
- (b) There were no changes in the registrant's internal control over financial reporting (as defined in Rule 30a-3(d) under the 1940 Act (17 CFR 270.30a-3(d))) that occurred during the registrant's last fiscal half-year (the registrant's second fiscal half-year in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

ITEM 11. 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 posted on registrant's website at www.nuveen.com/etf.

(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.

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(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 at this time.

(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 Premium Income Municipal Fund, Inc.

By (Signature and Title)* /s/ Jessica R. Droeger

Jessica R. Droeger
Vice President and Secretary

Date: October 8, 2004

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

By (Signature and Title)* /s/ Gifford R. Zimmerman

Gifford R. Zimmerman
Chief Administrative Officer
(Principal Executive Officer)

Date: October 8, 2004

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

Stephen D. Foy
Vice President and Controller
(Principal Financial Officer)

Date: October 8, 2004

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