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**Return of Private Foundation
or Section 4947(a)(1) Nonexempt Charitable Trust
Treated as a Private Foundation**

2011

Note. The foundation may be able to use a copy of this return to satisfy state reporting requirements.

For calendar year 2011 or tax year beginning

, and ending

Name of foundation THE CAPSTONE FOUNDATION		A Employer identification number 95-4211410
Number and street (or P O box number if mail is not delivered to street address) 2716 OCEAN PARK BLVD., STE 2014	Room/suite	B Telephone number (310) 314-2421
City or town, state, and ZIP code SANTA MONICA, CA 90405		C If exemption application is pending, check here <input type="checkbox"/>
G Check all that apply: <input type="checkbox"/> Initial return <input type="checkbox"/> Initial return of a former public charity <input type="checkbox"/> Final return <input type="checkbox"/> Amended return <input type="checkbox"/> Address change <input type="checkbox"/> Name change		D 1. Foreign organizations, check here <input type="checkbox"/> 2. Foreign organizations meeting the 85% test, check here and attach computation <input type="checkbox"/>
H Check type of organization: <input checked="" type="checkbox"/> Section 501(c)(3) exempt private foundation <input type="checkbox"/> Section 4947(a)(1) nonexempt charitable trust <input type="checkbox"/> Other taxable private foundation		E If private foundation status was terminated under section 507(b)(1)(A), check here <input type="checkbox"/>
I Fair market value of all assets at end of year (from Part II, col. (c), line 16) \$ 126,356.	J Accounting method: <input checked="" type="checkbox"/> Cash <input type="checkbox"/> Accrual <input type="checkbox"/> Other (specify) _____	F If the foundation is in a 60-month termination under section 507(b)(1)(B), check here <input type="checkbox"/>

Part I Analysis of Revenue and Expenses <small>(The total of amounts in columns (b), (c), and (d) may not necessarily equal the amounts in column (a))</small>		(a) Revenue and expenses per books	(b) Net investment income	(c) Adjusted net income	(d) Disbursements for charitable purposes (cash basis only)
Revenue	1 Contributions, gifts, grants, etc., received			N/A	
	2 Check <input checked="" type="checkbox"/> if the foundation is not required to attach Sch B				
	3 Interest on savings and temporary cash investments	9.	9.		STATEMENT 1
	4 Dividends and interest from securities	1,977.	1,977.		STATEMENT 2
	5a Gross rents				
	b Net rental income or (loss)				
	6a Net gain or (loss) from sale of assets not on line 10	<5,243.>			
	b Gross sales price for all assets on line 6a	10,043.			
	7 Capital gain net income (from Part IV, line 2)		0.		
	8 Net short-term capital gain				
	9 Income modifications				
	10a Gross sales less returns and allowances				
b Less Cost of goods sold					
c Gross profit or (loss)					
11 Other income					
12 Total. Add lines 1 through 11	<3,257.>	1,986.			
Operating and Administrative Expenses	13 Compensation of officers, directors, trustees, etc	0.	0.		0.
	14 Other employee salaries and wages				
	15 Pension plans, employee benefits				
	16a Legal fees				
	b Accounting fees				
	c Other professional fees				
	17 Interest				
	18 Taxes	10.	0.		0.
	19 Depreciation and depletion				
	20 Occupancy				
	21 Travel, conferences, and meetings				
	22 Printing and publications				
	23 Other expenses	599.	0.		0.
	24 Total operating and administrative expenses. Add lines 13 through 23	609.	0.		0.
	25 Contributions, gifts, grants paid	20,000.			20,000.
26 Total expenses and disbursements. Add lines 24 and 25	20,609.	0.		20,000.	
27 Subtract line 26 from line 12:					
a Excess of revenue over expenses and disbursements	<23,866.>				
b Net investment income (if negative, enter -0-)		1,986.			
c Adjusted net income (if negative, enter -0-)			N/A		

Part II Balance Sheets		Attached schedules and amounts in the description column should be for end-of-year amounts only		
		Beginning of year	End of year	
		(a) Book Value	(b) Book Value	(c) Fair Market Value
Assets	1 Cash - non-interest-bearing	21,581.	10,980.	10,980.
	2 Savings and temporary cash investments			
	3 Accounts receivable ▶			
	Less: allowance for doubtful accounts ▶			
	4 Pledges receivable ▶			
	Less: allowance for doubtful accounts ▶			
	5 Grants receivable			
	6 Receivables due from officers, directors, trustees, and other disqualified persons			
	7 Other notes and loans receivable ▶			
	Less: allowance for doubtful accounts ▶			
	8 Inventories for sale or use			
	9 Prepaid expenses and deferred charges			
	10a Investments - U.S. and state government obligations			
	b Investments - corporate stock			
	c Investments - corporate bonds			
11 Investments - land, buildings, and equipment basis ▶				
Less accumulated depreciation ▶				
12 Investments - mortgage loans				
13 Investments - other	STMT 5	167,823.	154,558.	115,376.
14 Land, buildings, and equipment basis ▶				
Less accumulated depreciation ▶				
15 Other assets (describe ▶ ORGANIZATION COSTS)		7,162.	7,162.	0.
16 Total assets (to be completed by all filers)		196,566.	172,700.	126,356.
Liabilities	17 Accounts payable and accrued expenses			
	18 Grants payable			
	19 Deferred revenue			
	20 Loans from officers, directors, trustees, and other disqualified persons			
	21 Mortgages and other notes payable			
	22 Other liabilities (describe ▶)			
23 Total liabilities (add lines 17 through 22)		0.	0.	
Net Assets or Fund Balances	Foundations that follow SFAS 117, check here ▶ <input type="checkbox"/>			
	and complete lines 24 through 26 and lines 30 and 31.			
	24 Unrestricted			
	25 Temporarily restricted			
	26 Permanently restricted			
	Foundations that do not follow SFAS 117, check here ▶ <input checked="" type="checkbox"/>			
	and complete lines 27 through 31.			
27 Capital stock, trust principal, or current funds		0.	0.	
28 Paid-in or capital surplus, or land, bldg., and equipment fund		0.	0.	
29 Retained earnings, accumulated income, endowment, or other funds		196,566.	172,700.	
30 Total net assets or fund balances		196,566.	172,700.	
31 Total liabilities and net assets/fund balances		196,566.	172,700.	

Part III Analysis of Changes in Net Assets or Fund Balances

1 Total net assets or fund balances at beginning of year - Part II, column (a), line 30 (must agree with end-of-year figure reported on prior year's return)	1	196,566.
2 Enter amount from Part I, line 27a	2	<23,866.>
3 Other increases not included in line 2 (itemize) ▶	3	0.
4 Add lines 1, 2, and 3	4	172,700.
5 Decreases not included in line 2 (itemize) ▶	5	0.
6 Total net assets or fund balances at end of year (line 4 minus line 5) - Part II, column (b), line 30	6	172,700.

Part IV Capital Gains and Losses for Tax on Investment Income

(a) List and describe the kind(s) of property sold (e.g., real estate, 2-story brick warehouse; or common stock, 200 shs. MLC Co.)	(b) How acquired P - Purchase D - Donation	(c) Date acquired (mo., day, yr.)	(d) Date sold (mo., day, yr.)
1a 654.45 SHS-JAPANESE SMALL CO PORTFOLIO	P	01/01/99	12/30/11
b CAPITAL GAINS DIVIDENDS			
c			
d			
e			

(e) Gross sales price	(f) Depreciation allowed (or allowable)	(g) Cost or other basis plus expense of sale	(h) Gain or (loss) (e) plus (f) minus (g)
a 10,000.		15,286.	<5,286.>
b 43.			43.
c			
d			
e			

Complete only for assets showing gain in column (h) and owned by the foundation on 12/31/69			(l) Gains (Col. (h) gain minus col. (k), but not less than -0-) or Losses (from col. (h))
(i) F.M.V. as of 12/31/69	(j) Adjusted basis as of 12/31/69	(k) Excess of col. (i) over col. (j), if any	
a			<5,286.>
b			43.
c			
d			
e			

2 Capital gain net income or (net capital loss)	{ If gain, also enter in Part I, line 7 If (loss), enter -0- in Part I, line 7 }	2	<5,243.>
3 Net short-term capital gain or (loss) as defined in sections 1222(5) and (6): If gain, also enter in Part I, line 8, column (c). If (loss), enter -0- in Part I, line 8		3	N/A

Part V Qualification Under Section 4940(e) for Reduced Tax on Net Investment Income

(For optional use by domestic private foundations subject to the section 4940(a) tax on net investment income.)

If section 4940(d)(2) applies, leave this part blank.

Was the foundation liable for the section 4942 tax on the distributable amount of any year in the base period?

Yes No

If "Yes," the foundation does not qualify under section 4940(e). Do not complete this part.

1 Enter the appropriate amount in each column for each year; see instructions before making any entries.

(a) Base period years Calendar year (or tax year beginning in)	(b) Adjusted qualifying distributions	(c) Net value of noncharitable-use assets	(d) Distribution ratio (col. (b) divided by col. (c))
2010	26,000.	161,660.	.160831
2009	19,993.	159,974.	.124977
2008	17,500.	194,785.	.089843
2007	21,057.	290,001.	.072610
2006	25,053.	203,894.	.122873

2 Total of line 1, column (d)	2	.571134
3 Average distribution ratio for the 5-year base period - divide the total on line 2 by 5, or by the number of years the foundation has been in existence if less than 5 years	3	.114227
4 Enter the net value of noncharitable-use assets for 2011 from Part X, line 5	4	147,329.
5 Multiply line 4 by line 3	5	16,829.
6 Enter 1% of net investment income (1% of Part I, line 27b)	6	20.
7 Add lines 5 and 6	7	16,849.
8 Enter qualifying distributions from Part XII, line 4	8	20,000.

If line 8 is equal to or greater than line 7, check the box in Part VI, line 1b, and complete that part using a 1% tax rate. See the Part VI instructions.

Part VI Excise Tax Based on Investment Income (Section 4940(a), 4940(b), 4940(e), or 4948 - see instructions)

1a	Exempt operating foundations described in section 4940(d)(2), check here <input type="checkbox"/> and enter "N/A" on line 1. Date of ruling or determination letter: _____ (attach copy of letter if necessary-see instructions)		
b	Domestic foundations that meet the section 4940(e) requirements in Part V, check here <input checked="" type="checkbox"/> and enter 1% of Part I, line 27b	1	20.
c	All other domestic foundations enter 2% of line 27b. Exempt foreign organizations enter 4% of Part I, line 12, col. (b).		
2	Tax under section 511 (domestic section 4947(a)(1) trusts and taxable foundations only. Others enter -0-)	2	0.
3	Add lines 1 and 2	3	20.
4	Subtitle A (income) tax (domestic section 4947(a)(1) trusts and taxable foundations only. Others enter -0-)	4	0.
5	Tax based on investment income. Subtract line 4 from line 3. If zero or less, enter -0-	5	20.
6	Credits/Payments:		
a	2011 estimated tax payments and 2010 overpayment credited to 2011	6a	
b	Exempt foreign organizations - tax withheld at source	6b	
c	Tax paid with application for extension of time to file (Form 8868)	6c	
d	Backup withholding erroneously withheld	6d	
7	Total credits and payments. Add lines 6a through 6d	7	0.
8	Enter any penalty for underpayment of estimated tax. Check here <input type="checkbox"/> if Form 2220 is attached	8	
9	Tax due. If the total of lines 5 and 8 is more than line 7, enter amount owed	9	20.
10	Overpayment. If line 7 is more than the total of lines 5 and 8, enter the amount overpaid	10	
11	Enter the amount of line 10 to be: Credited to 2012 estimated tax <input type="checkbox"/> Refunded <input type="checkbox"/>	11	

Part VII-A Statements Regarding Activities

	Yes	No
1a		X
1b		X
1c		X
(1)		
(2)		
2		X
3		X
4a		X
4b		
5		X
6	X	
7	X	
8a		
8b	X	
9		X
10		X

Part VII-A Statements Regarding Activities (continued)

11	At any time during the year, did the foundation, directly or indirectly, own a controlled entity within the meaning of section 512(b)(13)? If "Yes," attach schedule (see instructions)			X
12	Did the foundation make a distribution to a donor advised fund over which the foundation or a disqualified person had advisory privileges? If "Yes," attach statement (see instructions)			X
13	Did the foundation comply with the public inspection requirements for its annual returns and exemption application? Website address ▶ N/A	X		
14	The books are in care of ▶ NADINE I. WATT Telephone no. ▶ (310) 314-2413 Located at ▶ 2716 OCEAN PARK BLVD., SUITE 2014, SANTA MONICA, CA 90405 ZIP+4 ▶ 90405			
15	Section 4947(a)(1) nonexempt charitable trusts filing Form 990-PF in lieu of Form 1041 - Check here and enter the amount of tax-exempt interest received or accrued during the year			<input type="checkbox"/>
16	At any time during calendar year 2011, did the foundation have an interest in or a signature or other authority over a bank, securities, or other financial account in a foreign country? See the instructions for exceptions and filing requirements for Form TD F 90-22.1. If "Yes," enter the name of the foreign country ▶		Yes	No
		15	N/A	X

Part VII-B Statements Regarding Activities for Which Form 4720 May Be Required

File Form 4720 if any item is checked in the "Yes" column, unless an exception applies.

		Yes	No
1a	During the year did the foundation (either directly or indirectly):		
(1)	Engage in the sale or exchange, or leasing of property with a disqualified person? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No		
(2)	Borrow money from, lend money to, or otherwise extend credit to (or accept it from) a disqualified person? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No		
(3)	Furnish goods, services, or facilities to (or accept them from) a disqualified person? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No		
(4)	Pay compensation to, or pay or reimburse the expenses of, a disqualified person? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No		
(5)	Transfer any income or assets to a disqualified person (or make any of either available for the benefit or use of a disqualified person)? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No		
(6)	Agree to pay money or property to a government official? (Exception. Check "No" if the foundation agreed to make a grant to or to employ the official for a period after termination of government service, if terminating within 90 days.) <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No		
b	If any answer is "Yes" to 1a(1)-(6), did any of the acts fail to qualify under the exceptions described in Regulations section 53.4941(d)-3 or in a current notice regarding disaster assistance (see instructions)? Organizations relying on a current notice regarding disaster assistance check here N/A	1b	
c	Did the foundation engage in a prior year in any of the acts described in 1a, other than excepted acts, that were not corrected before the first day of the tax year beginning in 2011?	1c	X
2	Taxes on failure to distribute income (section 4942) (does not apply for years the foundation was a private operating foundation defined in section 4942(j)(3) or 4942(j)(5)):		
a	At the end of tax year 2011, did the foundation have any undistributed income (lines 6d and 6e, Part XIII) for tax year(s) beginning before 2011? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No If "Yes," list the years ▶ _____, _____, _____, _____		
b	Are there any years listed in 2a for which the foundation is not applying the provisions of section 4942(a)(2) (relating to incorrect valuation of assets) to the year's undistributed income? (If applying section 4942(a)(2) to all years listed, answer "No" and attach statement - see instructions.) N/A	2b	
c	If the provisions of section 4942(a)(2) are being applied to any of the years listed in 2a, list the years here. ▶ _____, _____, _____, _____		
3a	Did the foundation hold more than a 2% direct or indirect interest in any business enterprise at any time during the year? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No		
b	If "Yes," did it have excess business holdings in 2011 as a result of (1) any purchase by the foundation or disqualified persons after May 26, 1969; (2) the lapse of the 5-year period (or longer period approved by the Commissioner under section 4943(c)(7)) to dispose of holdings acquired by gift or bequest; or (3) the lapse of the 10-, 15-, or 20-year first phase holding period? (Use Schedule C, Form 4720, to determine if the foundation had excess business holdings in 2011.) N/A	3b	
4a	Did the foundation invest during the year any amount in a manner that would jeopardize its charitable purposes?	4a	X
b	Did the foundation make any investment in a prior year (but after December 31, 1969) that could jeopardize its charitable purpose that had not been removed from jeopardy before the first day of the tax year beginning in 2011?	4b	X

Part VII-B Statements Regarding Activities for Which Form 4720 May Be Required (continued)

5a During the year did the foundation pay or incur any amount to:

(1) Carry on propaganda, or otherwise attempt to influence legislation (section 4945(e))? Yes No

(2) Influence the outcome of any specific public election (see section 4955); or to carry on, directly or indirectly, any voter registration drive? Yes No

(3) Provide a grant to an individual for travel, study, or other similar purposes? Yes No

(4) Provide a grant to an organization other than a charitable, etc., organization described in section 509(a)(1), (2), or (3), or section 4940(d)(2)? Yes No

(5) Provide for any purpose other than religious, charitable, scientific, literary, or educational purposes, or for the prevention of cruelty to children or animals? Yes No

b If any answer is "Yes" to 5a(1)-(5), did any of the transactions fail to qualify under the exceptions described in Regulations section 53.4945 or in a current notice regarding disaster assistance (see instructions)? **N/A**

Organizations relying on a current notice regarding disaster assistance check here

c If the answer is "Yes" to question 5a(4), does the foundation claim exemption from the tax because it maintained expenditure responsibility for the grant? **N/A** Yes No

If "Yes," attach the statement required by Regulations section 53.4945-5(d).

6a Did the foundation, during the year, receive any funds, directly or indirectly, to pay premiums on a personal benefit contract? Yes No

b Did the foundation, during the year, pay premiums, directly or indirectly, on a personal benefit contract? **6b** Yes No **X**

If "Yes" to 6b, file Form 8870.

7a At any time during the tax year, was the foundation a party to a prohibited tax shelter transaction? Yes No

b If "Yes," did the foundation receive any proceeds or have any net income attributable to the transaction? **7b** Yes No **N/A**

Part VIII Information About Officers, Directors, Trustees, Foundation Managers, Highly Paid Employees, and Contractors

1 List all officers, directors, trustees, foundation managers and their compensation.

(a) Name and address	(b) Title, and average hours per week devoted to position	(c) Compensation (If not paid, enter -0-)	(d) Contributions to employee benefit plans and deferred compensation	(e) Expense account, other allowances
SEE STATEMENT 6		0.	0.	0.

2 Compensation of five highest-paid employees (other than those included on line 1). If none, enter "NONE."

(a) Name and address of each employee paid more than \$50,000	(b) Title, and average hours per week devoted to position	(c) Compensation	(d) Contributions to employee benefit plans and deferred compensation	(e) Expense account, other allowances
NONE				

Total number of other employees paid over \$50,000 0

Part VIII Information About Officers, Directors, Trustees, Foundation Managers, Highly Paid Employees, and Contractors *(continued)*

3 Five highest-paid independent contractors for professional services. If none, enter "NONE."

(a) Name and address of each person paid more than \$50,000	(b) Type of service	(c) Compensation
NONE		

Total number of others receiving over \$50,000 for professional services ▶ 0

Part IX-A Summary of Direct Charitable Activities

List the foundation's four largest direct charitable activities during the tax year. Include relevant statistical information such as the number of organizations and other beneficiaries served, conferences convened, research papers produced, etc.

	Expenses
1 N/A	
	0.
2	
3	
4	

Part IX-B Summary of Program-Related Investments

Describe the two largest program-related investments made by the foundation during the tax year on lines 1 and 2.

	Amount
1 NONE	
	0.
2	
All other program-related investments. See instructions.	
3 NONE	
	0.
Total. Add lines 1 through 3 ▶	0.

Part X Minimum Investment Return (All domestic foundations must complete this part. Foreign foundations, see instructions.)

1 Fair market value of assets not used (or held for use) directly in carrying out charitable, etc., purposes:		
a Average monthly fair market value of securities	1a	121,719.
b Average of monthly cash balances	1b	27,854.
c Fair market value of all other assets	1c	0.
d Total (add lines 1a, b, and c)	1d	149,573.
e Reduction claimed for blockage or other factors reported on lines 1a and 1c (attach detailed explanation)	1e	0.
2 Acquisition indebtedness applicable to line 1 assets	2	0.
3 Subtract line 2 from line 1d	3	149,573.
4 Cash deemed held for charitable activities. Enter 1 1/2% of line 3 (for greater amount, see instructions)	4	2,244.
5 Net value of noncharitable-use assets. Subtract line 4 from line 3. Enter here and on Part V, line 4	5	147,329.
6 Minimum investment return. Enter 5% of line 5	6	7,366.

Part XI Distributable Amount (see instructions) (Section 4942(j)(3) and (j)(5) private operating foundations and certain foreign organizations check here and do not complete this part.)

1 Minimum investment return from Part X, line 6	1	7,366.
2a Tax on investment income for 2011 from Part VI, line 5	2a	20.
b Income tax for 2011. (This does not include the tax from Part VI.)	2b	
c Add lines 2a and 2b	2c	20.
3 Distributable amount before adjustments. Subtract line 2c from line 1	3	7,346.
4 Recoveries of amounts treated as qualifying distributions	4	0.
5 Add lines 3 and 4	5	7,346.
6 Deduction from distributable amount (see instructions)	6	0.
7 Distributable amount as adjusted. Subtract line 6 from line 5. Enter here and on Part XIII, line 1	7	7,346.

Part XII Qualifying Distributions (see instructions)

1 Amounts paid (including administrative expenses) to accomplish charitable, etc., purposes:		
a Expenses, contributions, gifts, etc. - total from Part I, column (d), line 26	1a	20,000.
b Program-related investments - total from Part IX-B	1b	0.
2 Amounts paid to acquire assets used (or held for use) directly in carrying out charitable, etc., purposes	2	
3 Amounts set aside for specific charitable projects that satisfy the:		
a Suitability test (prior IRS approval required)	3a	
b Cash distribution test (attach the required schedule)	3b	
4 Qualifying distributions. Add lines 1a through 3b. Enter here and on Part V, line 8, and Part XIII, line 4	4	20,000.
5 Foundations that qualify under section 4940(e) for the reduced rate of tax on net investment income. Enter 1% of Part I, line 27b	5	20.
6 Adjusted qualifying distributions. Subtract line 5 from line 4	6	19,980.

Note. The amount on line 6 will be used in Part V, column (b), in subsequent years when calculating whether the foundation qualifies for the section 4940(e) reduction of tax in those years.

Part XIII Undistributed Income (see instructions)

	(a) Corpus	(b) Years prior to 2010	(c) 2010	(d) 2011
1 Distributable amount for 2011 from Part XI, line 7				7,346.
2 Undistributed income, if any, as of the end of 2011				
a Enter amount for 2010 only			0.	
b Total for prior years:		0.		
3 Excess distributions carryover, if any, to 2011:				
a From 2006	14,902.			
b From 2007	6,557.			
c From 2008	7,795.			
d From 2009	12,008.			
e From 2010	17,917.			
f Total of lines 3a through e	59,179.			
4 Qualifying distributions for 2011 from Part XII, line 4: ▶ \$	20,000.			
a Applied to 2010, but not more than line 2a			0.	
b Applied to undistributed income of prior years (Election required - see instructions)		0.		
c Treated as distributions out of corpus (Election required - see instructions)	0.			
d Applied to 2011 distributable amount				7,346.
e Remaining amount distributed out of corpus	12,654.			
5 Excess distributions carryover applied to 2011 (if an amount appears in column (d), the same amount must be shown in column (a))	0.			0.
6 Enter the net total of each column as indicated below:				
a Corpus Add lines 3f, 4c, and 4e Subtract line 5	71,833.			
b Prior years' undistributed income. Subtract line 4b from line 2b		0.		
c Enter the amount of prior years' undistributed income for which a notice of deficiency has been issued, or on which the section 4942(a) tax has been previously assessed		0.		
d Subtract line 6c from line 6b. Taxable amount - see instructions		0.		
e Undistributed income for 2010. Subtract line 4a from line 2a. Taxable amount - see instr.			0.	
f Undistributed income for 2011. Subtract lines 4d and 5 from line 1. This amount must be distributed in 2012				0.
7 Amounts treated as distributions out of corpus to satisfy requirements imposed by section 170(b)(1)(F) or 4942(g)(3)	0.			
8 Excess distributions carryover from 2006 not applied on line 5 or line 7	14,902.			
9 Excess distributions carryover to 2012. Subtract lines 7 and 8 from line 6a	56,931.			
10 Analysis of line 9:				
a Excess from 2007	6,557.			
b Excess from 2008	7,795.			
c Excess from 2009	12,008.			
d Excess from 2010	17,917.			
e Excess from 2011	12,654.			

Part XIV Private Operating Foundations (see instructions and Part VII-A, question 9) N/A

1 a If the foundation has received a ruling or determination letter that it is a private operating foundation, and the ruling is effective for 2011, enter the date of the ruling ▶

b Check box to indicate whether the foundation is a private operating foundation described in section 4942(j)(3) or 4942(j)(5)

	Tax year				(e) Total
	(a) 2011	(b) 2010	(c) 2009	(d) 2008	
2 a Enter the lesser of the adjusted net income from Part I or the minimum investment return from Part X for each year listed					
b 85% of line 2a					
c Qualifying distributions from Part XII, line 4 for each year listed					
d Amounts included in line 2c not used directly for active conduct of exempt activities					
e Qualifying distributions made directly for active conduct of exempt activities. Subtract line 2d from line 2c					
3 Complete 3a, b, or c for the alternative test relied upon:					
a "Assets" alternative test - enter:					
(1) Value of all assets					
(2) Value of assets qualifying under section 4942(j)(3)(B)(i)					
b "Endowment" alternative test - enter 2/3 of minimum investment return shown in Part X, line 6 for each year listed					
c "Support" alternative test - enter:					
(1) Total support other than gross investment income (interest, dividends, rents, payments on securities loans (section 512(a)(5)), or royalties)					
(2) Support from general public and 5 or more exempt organizations as provided in section 4942(j)(3)(B)(iii)					
(3) Largest amount of support from an exempt organization					
(4) Gross investment income					

Part XV Supplementary Information (Complete this part only if the foundation had \$5,000 or more in assets at any time during the year-see instructions.)

1 **Information Regarding Foundation Managers:**
 a List any managers of the foundation who have contributed more than 2% of the total contributions received by the foundation before the close of any tax year (but only if they have contributed more than \$5,000). (See section 507(d)(2).)

NONE

b List any managers of the foundation who own 10% or more of the stock of a corporation (or an equally large portion of the ownership of a partnership or other entity) of which the foundation has a 10% or greater interest.

NONE

2 **Information Regarding Contribution, Grant, Gift, Loan, Scholarship, etc., Programs:**
 Check here if the foundation only makes contributions to preselected charitable organizations and does not accept unsolicited requests for funds. If the foundation makes gifts, grants, etc. (see instructions) to individuals or organizations under other conditions, complete items 2a, b, c, and d.

a The name, address, and telephone number of the person to whom applications should be addressed:
NADINE I. WATT, (310) 314-2413
2716 OCEAN PARK BLVD., STE 2014, SANTA MONICA, CA 90405

b The form in which applications should be submitted and information and materials they should include:
SEE ATTACHED FOUR PAGE APPLICATION

c Any submission deadlines:
NONE

d Any restrictions or limitations on awards, such as by geographical areas, charitable fields, kinds of institutions, or other factors:
NONE

Part XV Supplementary Information (continued)

3 Grants and Contributions Paid During the Year or Approved for Future Payment				
Recipient	If recipient is an individual, show any relationship to any foundation manager or substantial contributor	Foundation status of recipient	Purpose of grant or contribution	Amount
Name and address (home or business)				
a Paid during the year				
FOOD FOR THE HUNGRY 1224 E. WASHINGTON ST. PHOENIX, AZ 85034	NONE	PUBLIC	JAPAN EARTHQUAKE/Tsunami	5,000.
FOOD FOR THE HUNGRY 1224 E. WASHINGTON ST. PHOENIX, AZ 85034	NONE	PUBLIC	HELPING HUNGRY PEOPLE	10,000.
HELP THE CHILDREN 5600 RICKENBACKER ROAD, BLDG 1B BELL, CA 90201	NONE	PUBLIC	HELP PROVIDE FOOD/RELIEF ITEMS TO NEEDY CHILDREN AND THEIR FAMILIES AROUND THE WORLD	5,000.
Total				20,000.
b Approved for future payment				
NONE				
Total				0.

FORM 990-PF INTEREST ON SAVINGS AND TEMPORARY CASH INVESTMENTS STATEMENT 1

SOURCE	AMOUNT
BANK OF AMERICA	9.
TOTAL TO FORM 990-PF, PART I, LINE 3, COLUMN A	9.

FORM 990-PF DIVIDENDS AND INTEREST FROM SECURITIES STATEMENT 2

SOURCE	GROSS AMOUNT	CAPITAL GAINS DIVIDENDS	COLUMN (A) AMOUNT
DFA ONE-YEAR FIXED INC PORTFOLIO	129.	43.	86.
JAPANESE SMALL CO PORTFOLIO	1,891.	0.	1,891.
TOTAL TO FM 990-PF, PART I, LN 4	2,020.	43.	1,977.

FORM 990-PF TAXES STATEMENT 3

DESCRIPTION	(A) EXPENSES PER BOOKS	(B) NET INVESTMENT INCOME	(C) ADJUSTED NET INCOME	(D) CHARITABLE PURPOSES
FRANCHISE TAX BOARD	10.	0.		0.
TO FORM 990-PF, PG 1, LN 18	10.	0.		0.

FORM 990-PF OTHER EXPENSES STATEMENT 4

DESCRIPTION	(A) EXPENSES PER BOOKS	(B) NET INVESTMENT INCOME	(C) ADJUSTED NET INCOME	(D) CHARITABLE PURPOSES
BANK FEES	1.	0.		0.
PROFESSIONAL FEES	584.	0.		0.
TAXES AND LICENSES	20.	0.		0.
FEDERAL INCOME TAX REFUND	<6.>	0.		0.
TO FORM 990-PF, PG 1, LN 23	599.	0.		0.

FORM 990-PF	OTHER INVESTMENTS	STATEMENT	5
DESCRIPTION	VALUATION METHOD	BOOK VALUE	FAIR MARKET VALUE
DFA ONE-YEAR FIXED INCOME PORTFOLIO	COST	16,404.	16,538.
DFA JAPANESE SMAL CO. PORTFOLIO	COST	138,154.	98,838.
TOTAL TO FORM 990-PF, PART II, LINE 13		154,558.	115,376.

FORM 990-PF PART VIII - LIST OF OFFICERS, DIRECTORS
TRUSTEES AND FOUNDATION MANAGERS STATEMENT 6

NAME AND ADDRESS	TITLE AND AVRG HRS/WK	COMPEN-SATION	EMPLOYEE BEN PLAN CONTRIB	EXPENSE ACCOUNT
NADINE I. WATT 2716 OCEAN PARK BLVD., SUITE 2014 SANTA MONICA, CA 90405	PRESIDENT 0.75	0.	0.	0.
RAYMOND WATT II 2716 OCEAN PARK BLVD., SUITE 2014 SANTA MONICA, CA 90405	VICE PRESIDET 0.75	0.	0.	0.
J. SCOTT WATT 2716 OCEAN PARK BLVD., SUITE 2014 SANTA MONICA, CA 90405	SECRETARY 0.75	0.	0.	0.
KATHLEEN M. WATT 2716 OCEAN PARK BLVD., SUITE 2014 SANTA MONICA, CA 90405	TREASURER 0.75	0.	0.	0.
BAMBI A. WATT 2716 OCEAN PARK BLVD., SUITE 2014 SANTA MONICA, CA 90405	BOARD MEMBER 0.75	0.	0.	0.
ANDREW JAMESON 2716 OCEAN PARK BLVD., SUITE 2014 SANTA MONICA, CA 90405	BOARD MEMBER 0.75	0.	0.	0.
TOTALS INCLUDED ON 990-PF, PAGE 6, PART VIII		0.	0.	0.

The Capstone Foundation
2716 Ocean Park Blvd., #2014
Santa Monica, California 90405

Organization's Application for Grant From Private Foundation
(Not for use by Individuals)

To:
The Capstone Foundation
Nadine I. Watt
2716 Ocean Park Blvd., #2025
Santa Monica, CA 90405

From:

(Name of Applicant)

(Street Address)

(City, State, ZipCode)

PART I. Information about the Applicant

1. Is the applicant organized as a nonprofit organization under state laws governing charitable organizations? Yes No
If yes, what State or Commonwealth governs?
If no, please explain:

-
2. Has the applicant received a ruling or determination letter from the Internal Revenue Service about any of the following: Yes No
(a) Exempt status Yes No
(b) Private foundation status Yes No
(c) Grant-making procedures Yes No
Attach a photocopy of each such letter. (a) copy of letter attached.
If any item is marked no, explain:

-
3. (a) Attach a copy of the applicant's proposed project for the year in which the grant funds are to be used.
(b) If this grant will be a substantial and material part of the total budget, attach a copy of the latest information return (Form 990 or 990PF) filed by the applicant with the Internal Revenue Service.
(c) Describe the applicant's purposes and activities in general.
Please respond to these questions on a separate sheet.

-
4. Is the applicant controlled by, related to, connected with, or sponsored by another organization? Yes No
If yes, identify the organization (including its purpose and activities) and explain the relationship:
-

5. List the name, address, and title of each member of the applicant's governing board.

_____	_____
(Name)	(Title or Office)
_____	_____
(Street Address)	(City, State and ZIP Code)
_____	_____
(Name)	(Title or Office)
_____	_____
(Street Address)	(City, State and ZIP Code)
_____	_____
(Name)	(Title or Office)
_____	_____
(Street Address)	(City, State and ZIP Code)

6. Has the applicant (or any organization listed in 4) ever applied for or received a grant from this foundation? () Yes () No
If yes, give details:

PART II. Use of the Proposed Grant

7. Show the amount requested and explain in detail how it will be used. State whether the Grant is to be earmarked for the use or benefit of any one person, group, or class of people. If so, for whom?
If the Grant is to be used other than for tax exempt purposes provide details.

8. Person to contact who will be administering the proposed Grant.

_____	_____
(Name)	(Title)
_____	_____
(Street Address)	(City, State and ZIP Code)
_____	_____
(Area Code and Telephone Number)	(E-Mail Address)

From my own knowledge, I state that the information given in Parts I and II is correct. The applicant organization has authorized me to make this application.

_____	_____
(Name)	(Date)

(Title or Office)	

The information in Parts I and II is to help the grantor foundation meet the requirements of Section 4945 (h) of the Internal Revenue Code.

Part III. To be filled in by The Capstone Foundation

9. Evaluation:

10. Special supervisory or follow-up requirements, if any:

11. Remarks:

(Date)

(Foundation Officer)

12. Action taken. (Person to approve action must initial and date)

- a) Approved as requested (_____)
- b) Approved as modified, see Remarks (_____)
- c) Denied (_____)
- d) Date of grant agreement (_____)
- e) Amount of grant \$ _____ (_____)
- f) Date of grant _____ (_____)
- g) Date of interim report _____ (_____)
- h) Date of final report _____ (_____)
- i) Date file closed _____ (_____)